

IN THE  
UNITED STATES PATENT AND TRADEMARK OFFICE

Inventor(s): Robert E. Sutton

Examiner:

Application No.: 09/896,705

Group Art Unit: 2161

Filing Date: June 29, 2001

Title: METHOD FOR PROVIDING FINANCIAL AND RISK MANAGEMENT

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**Affidavit of Robert E. Sutton  
Under 37 CFR 1.132 Relating to Public Use, On Sale and Experimental Use**

Assistant Commissioner for Patents  
Washington, D.C. 20231

Dear Sir:

I, Robert E. Sutton, hereby depose and state:

1. I am the named inventor in the above-identified application and that I have reviewed the specification and claims of the above-identified application, including claim 22 that is being submitted concurrently herewith in a Preliminary Amendment;
2. That I am the CEO/Chairman of Centrix Financial, LLC, the exclusive licensee of the invention disclosed in the above-identified application;
3. That in an effort to determine the feasibility of the operation of certain aspects of the invention set forth in claim 22 of the above-identified application, it was necessary to enter into certain agreements attached hereto as Exhibit A and B to test the invention;
4. That Exhibit A constitutes a Strategic Alliance Agreement that was established between Centrix Financial, LLC and CU Leasing Corporation;
5. That CU Leasing Corporation is part of the Credit Union League, which is an entity that provides services to credit unions within a regional area, typically a state;
6. That CU Leasing Corporation services credit unions in the Colorado area;

7. That the Strategic Alliance Agreement entered into between Centrix Financial, LLC and CU Leasing Corporation was to establish an association with CU Leasing to have access to credit unions to test certain aspects of the invention in claims 22;
8. That as a result of entering into the Strategic Alliance Agreement with CU Leasing, Centrix Financial, LLC was able to enter into beta tests with the financial institutions identified in Exhibit C;
9. That Exhibit C indicates that the total number of loans made prior to June 29, 1999, the critical date, was 392 loans;
10. That, under my direction, an Agency Agreement was entered into with Lyndon Property Insurance Company and Centrix Financial, LLC regarding an exclusive relationship between the parties for providing default insurance, a copy of which is attached hereto as Exhibit B;
11. That the Agency Agreement of Exhibit B has an effective date of August 1, 1998 and was effective for two years, terminating on July 31, 2000;
12. That Section 3(b) of the Agency Agreement indicates that for the first 12 months following the effective date of August 1, 1998 the premiums processed by Lyndon shall not be more than \$3,000,000;
13. That Section 3(b) also indicates that the Agency Agreement may be terminated if the premiums exceed the \$3,000,000 cap;
14. That this cap on premiums was intended to limit, to a small number, the policies that would be issued from August 1, 1998 until July 1, 1999 so that the principles of operation of certain aspects of the invention set forth in claim 22 could be tested;
15. That these limits were mutually agreed to by Lyndon Property Insurance Company and me, as CEO/Chairman of Centrix Financial, LLC since both companies were unsure if certain principles of the invention, set forth in claim 22, were sound;
16. That I was personally aware of numerous companies that attempted to establish a sub-prime lending program that did not work;
17. That there was a high degree of risk in making the process, set forth in claim 22, work;

18. That in March 1999, a report was issued by the FDIC entitled, "Interagency Guidance on Sub-Prime Lending" that identified serious concerns regarding bank involvement in sub-prime lending, as disclosed in Exhibit D.
19. That the FDIC report, that is referenced in Exhibit D, provides a warning to financial institutions that there is a substantial risk associated with sub-prime lending. In particular, the FDIC report states that, "Institutions that engage in sub-prime lending ... should have board-approved policies and procedures, as well as internal controls that identify, measure, monitor, and control additional risks" of sub-prime lending. The FDIC report also states that institutions engaging in sub-prime lending should have "systems in place commensurate with their level of risk." Further, the FDIC report found that many sub-prime lenders leave the market due to "turmoil in the equity and asset-backed securities market" and "poorly structured sub-prime lending programs;"
20. That, as the named inventor in the above-identified application, I was aware of the high degree of risk in establishing a sub-prime lending program and developing a program that managed the risk of making vehicle loans to credit impaired borrowers, as set forth in claim 22 of the above-identified application;
21. That, to the best of my knowledge, a program that used default insurance, as disclosed in the above-identified application, had not ever been used before to insure lenders against losses for defaults on loans made to credit impaired borrowers on a loan-by-loan basis;
22. That I did not know if the process, set forth in claim 22, of insuring lenders and establishing a financial service provider organization that performs all the processes of qualifying credit impaired borrowers, locating financial institutions desiring to make vehicle loans to credit impaired borrowers, placing vehicle loans with financial institutions on a loan-by-loan basis, servicing such loans, obtaining non-revocable default insurance policies on such loans, asserting insurance claims against the insurance company in the event of default, and disbursing insurance claim proceeds to financial institutions, was a process that could work and would work such that the number of defaults were sufficiently low to have an operable system;
23. That I understood at the time of filing of the application that a majority of the defaults on vehicle loans occur in the second year of the loan;
24. That I intentionally and mutually agreed to the cap on the number of insurance policies in the Agency Agreement with Lyndon Insurance Company because I realized that the basic concepts of the invention set forth in claim 22 must be tested over a period of one to two years;

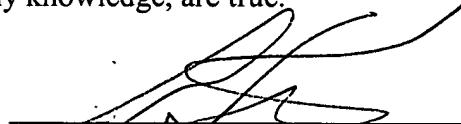
25. That due to federal regulations that apply to financial institutions, formal signed agreements must be established to conduct the processes set forth in claims 22, and as a result, actual sales must be made to test the processes set forth in claim 22;
26. That experimentation must be conducted with actual loans in order to assess risk and determine whether the process set forth in claim 22 can and will operate;
27. That an extended experimentation period is required due to the fact that the risk associated with a portfolio of loans to credit impaired borrowers cannot be evaluated without a significant number of loans in the portfolio and an extended period of time within which to assess payment, delinquency and default patterns, i.e., a one to two-year period;
28. That at a very minimum, the amount of time to assess a portfolio is at least one-year and preferably two years;
29. That an assessment could not be made until after June 29, 1999, which was less than one year from the time that experimentation first started on the processes set forth in claim 22, to even determine if the processes set forth in claim 22 could work and would be successful;
30. That Centrix, under my direction, conducted extensive experimentation to determine the feasibility of the process set forth in claim 22 as a result of the previous failures of numerous organizations who had tried to generate a system for lending to credit impaired borrowers;
31. That Centrix, under my direction, and Lyndon Insurance Company, were continuously evaluating default rates prior to and after June 29, 1999 to determine if the process set forth in claim 22 could operate and would be successful;
32. That the process set forth in claim 22 was modified by me in response to the results obtained from the initial tests prior to June 29, 1999;
33. That Exhibit E is a memorandum dated December 15, 1998 from me to Chris Olson, the Senior Vice President of the Bank of Alameda, which was one of the beta test sites of the invention set forth in claim 22, indicating that modifications of the process set forth in claim 22 were being made;
34. That further changes were made, after the memorandum to Chris Olson dated December 15, 1988, to eliminate the 10% figure in paragraph two of the memorandum as a result of further test results obtained, during the testing period prior to June 29, 1999;

35. That Exhibit F is entitled, "Centrix Portfolio Statistics and Financials as of 12/31/02;"
36. That Exhibit F indicates that 25 loans were placed during 1998;
37. That Exhibit F indicates that 1,929 loans were placed during 1999;
38. That comparing Exhibit C to Exhibit F, 392 loans were placed between January 1, 1999 and June 29, 1999;
39. That 1,537 loans were placed between June 30, 1999 and December 31, 1999;
40. That a total of 417 loans were placed prior to June 29, 1999 and that these loans were placed to determine the feasibility of the process set forth in claim 22;
41. That I discussed the gap insurance policy with Roland Anderson, President of Lyndon Insurance Company, prior to entering into the Agency Agreement with Lyndon Insurance Company;
42. That it was agreed with Mr. Roland Anderson that the purpose for entering into the Agency Agreement was to determine if the concept of using default insurance (GAP insurance) to cover losses of financial institutions as a result of defaults on vehicle loans would even work;
43. That it was agreed that the first year of operation under the Agency Agreement, which ended on August 1, 1999, was for the purpose of testing these concepts and not to make a profit;
44. That prior to August 1, 1999 I was primarily interested in determining whether the inventive concepts of using gap insurance to cover loan defaults would even work, i.e., whether the number of defaults were sufficiently low that an operable system could be put in place and work in an ongoing basis and that any profit made prior to August 1, 1999 would be incidental to the primary objective of testing the process of the inventive concepts;
45. That Exhibit G is the meeting notes of a meeting that took place on April 6, 2000 at 11:00 a.m. at the Mountain Bell Credit Union;
46. That Exhibit G indicates that Mountain Bell Credit Union was a beta test site for testing the delinquency procedures;
47. That Exhibit G indicates that the beta test lasted from six months to one year starting on June 30, 2000;

48. That Exhibit G is a clear indication that the processes set forth in claim 22 were still being tested as of June 30, 2000;
49. That Exhibit G indicates that Centrix Financial would buy back loans from the financial institutions if the ratio of delinquent loans reaches 1.5% of the loan balances.
50. That Exhibit H is a memorandum from Robert E. Sutton to Gary Adkins of the Mountain Bell Credit Union dated July 13, 2001;
51. That Exhibit H reviews the beta testing performed with Mountain Bell Credit Union with respect to features of the gap insurance that are set forth in claim 22 of the above-identified application;
52. Exhibit H indicates that the processes put in place for the beta test with Mountain Bell Credit Union were not optimal;
53. That Exhibit H states, “[H]owever, based on feedback from Mountain Bell and from our own assessment of the beta test, it is clear that the two procedures that were tested were not the optimal method to achieve the goal,”
54. That Exhibit H further states that, “[W]e appreciate Mountain Bell’s past assistance in designing and testing our new procedures;”
55. That Exhibit H indicates that a revised method of providing GAP insurance and payment of premiums based upon the failure of the beta test with Mountain Bell was adopted;
56. That Exhibit H clearly indicates that the processes for carrying out the invention, as set forth in claim 22, were being tested and were required to be modified as of July 13, 2001;
57. That the inventive concepts of claims 24-29 were not ready for patenting prior to June 29, 1999 and were not in public use or on-sale prior to June 29, 1999;
58. That, under my direction, the staff of Centrix Financial prepared records relating to delinquencies, defaults and other data that I reviewed on a weekly basis prior to the critical date and that these records were provided to the financial institutions and to Lyndon Property Insurance Company; and

59. That I periodically met with Roland Anderson and Howard Klemmer to discuss test results, usually on a monthly basis, both before and after the critical date.

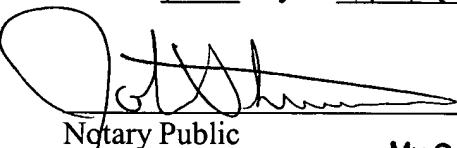
That the above facts, to the best of my knowledge, are true.



Robert E. Sutton

STATE OF COLORADO )  
                      )  
                      ) ss.  
COUNTY OF DENVER )

Subscribed and sworn before me this 10<sup>th</sup> day of April, 2003, by  
Robert E. Sutton.



Notary Public  
My commission expires: My Commission Expires  
September 11, 2004

(SEAL)

## STRATEGIC ALLIANCE AGREEMENT

This Agreement is made this 7 day of Oct. 1998 by and between Centrix Financial LLC, a Colorado limited liability company ("Centrix"), and CU Leasing Corporation, a Colorado corporation ("CU Leasing").

### RECITALS

A. Centrix has developed a program for financial institutions known as the Portfolio Manager Program ("PMP"). Centrix's PMP is offered to credit unions pursuant to an agreement with CU Leasing Corporation, Arvada, Colorado ("CU Leasing"). Loans are insured so that the financial institutions' risk of loss will be reduced in the event of default by the purchaser of the automobile.

B. CU Leasing provides financial, administrative, and marketing services products to its credit union clients throughout Colorado. Its services include, but are not limited to, various financial products from selected vendors including auto finance programs, administrative support and accounting programs and marketing services.

C. Centrix desires to make available its PMP to CU Leasing and CU Leasing desires to acquire access to PMP for the benefit of its clients.

NOW THEREFORE, in consideration of the above recitals and the mutual provisions herein contained and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Description of PMP. Centrix's PMP is designed to provide for the origination, underwriting, management and insurance of high yield automobile loans to persons with impaired or sub-prime credit. Centrix has also formed and is continuing to develop relationships with automobile dealers as a source of such loans. It has compiled policies and procedures in connection with credit approval for such loans and has arranged for insurance which will provide a lender with substantial reduction of risk in the event of default by the purchaser of the automobile. The PMP includes an insurance policy, credit guidelines, systems and procedures and a sample funding package. Lender understands that it must enter into separate dealer agreements for each automobile dealer wishing to participate in the PMP that has not previously executed a dealer agreement with CU Leasing.

### 2. Duties of Centrix.

2.1 During the term of this Agreement, Centrix shall market the PMP to Colorado credit unions exclusively through CU Leasing whether or not such credit unions are clients of CU Leasing. Centrix shall enter into agreements relating to or in connection with the PMP with Colorado credit unions during the term of this Agreement only through CU Leasing.

2.2 Centrix will coordinate with and assist CU Leasing to make available the PMP to clients of CU Leasing. Such services will include setting up systems, procedures and underwriting

guidelines; training automobile dealers on the PMP system; processing and pre-qualifying loans; managing service and collection of loans if necessary and providing for insurance against customer default on a loan-by-loan basis as set forth in the PMP. The PMP constitutes the following Exhibits:

Exhibit A: Summary of the PMP System

Exhibit B: PMP Systems and Procedures

Exhibit C: Flow Charts

1) Auto Acquisition and Funding

2) Servicing and Collection (Post Closing)

3) Default and Collection

Exhibit D: Underwriting Guidelines

1) Summary

2) Credit Standards

Exhibit E: Insurance Policy and S&P Rating

Exhibit F: Credit Union Contract

Exhibit G: Servicing and Collection Summary and Contract

Exhibit H: Pricing for Servicing and Collections

Exhibit I: Dealer P&L Analysis

Exhibit J: Transaction Distribution Analysis

Exhibit K: Dealer Package

Exhibit L: Auto Loan Closing Package (Example)

3. Duties of CU Leasing.

3.1 During the term of this Agreement, CU Leasing will not market, present or refer its clients or customers to any entity or organization that provides for sub-prime or non-prime automobile loans other than Centrix.

3.2 CU Leasing will provide its clients and customers who have become participants in the PMP with ongoing assistance, advice and support regarding compliance with and implementation of the PMP and will refer questions and issues to Centrix as needed.

3.3 CU Leasing will market and advocate the PMP to automobile dealers with whom it has a relationship.

3.4 CU Leasing will recommend and endorse the PMP to other credit unions outside CU Leasing's sphere of influence and will provide the services set forth in this Agreement to such credit unions even though they are outside CU Leasing's traditional territory.

4. Compensation. CU Leasing shall be entitled to \$180 for each loan closed pursuant to the PMP by its clients. In addition, CU Leasing shall be entitled to \$50 per loan made by each credit union which is not a client or member and is outside CU Leasing's traditional territory (provided the automobile purchaser makes the first payment under such loan).

5. Term. The term of this Agreement shall be two years and shall be renewed automatically for additional one-year terms unless either party gives notice to the other party at least

thirty days prior to the end of the initial term or any renewal term that such party does not wish to renew this Agreement. Either party may terminate this Agreement upon not less than thirty days' written notice to the other party in the event of breach by such other party to this Agreement or such party's fraud, misrepresentation or breach of fiduciary duty in carrying out its obligations hereunder. Notwithstanding the foregoing, either party may terminate this Agreement at any time without cause upon 120 days' written notice to the other party.

6. Covenant of Cooperation. Centrix and CU Leasing agree that they will cooperate with each other with a view toward improving and marketing the PMP. Such cooperation shall include, but not be limited to, developing and enhancing marketing materials, improving sales support systems for credit unions and participating jointly in seminars, presentations and marketing and sales calls.

7. Non-Circumvention. After termination of this Agreement, Centrix shall not, directly or indirectly, solicit participation in or market the PMP to credit unions who are clients of CU Leasing without the written consent of CU Leasing, which consent will not be unreasonably withheld. However, should a client credit union of CU Leasing wish to continue with the PMP, it may do so provided that Centrix pays to CU Leasing 50% of the compensation set forth in Section 4. Furthermore, Centrix may make available the PMP to such credit unions which initiate contact with it provided that Centrix pays to CU Leasing 50% of the compensation set forth in Section 4. Nothing contained in this paragraph shall be construed to prohibit or restrict Centrix from marketing the PMP after termination to credit unions based outside of Colorado.

8. Miscellaneous.

8.1 Notices. All notices required or permitted hereunder shall be in writing and shall be deemed given upon hand delivery (which shall include hand delivery by private courier) or three business days after deposit in the United States mail with postage prepaid, registered or certified, and return receipt requested to the parties at their respective addresses set forth below (or as changed by giving notice to the other party).

8.2 This Agreement shall be construed and enforced in accordance with the laws of the State of Colorado.

8.3 This Agreement contains the entire agreement of the parties and shall not be modified except by written amendment signed by both parties hereto. In the event of the invalidity or unenforceability of any provision, the remainder of this Agreement shall continue in full force and effect.

8.4 This Agreement may not be assigned by Centrix or CU Leasing, in whole or in part, without the prior written consent of the other party.

8.5 The failure of either Centrix or CU Leasing to enforce at any time any provision of this Agreement or to exercise any right herein provided shall not in any way be construed to be a waiver of such provision or right and shall not in any way affect the validity of this

Agreement or any part hereof, or limit, prevent or impair the right of either Centrix or CU Leasing to subsequently enforce such provision or exercise such right.

8.6 Nothing contained in this Agreement shall be deemed to create any partnership, joint venture, or relationship of principal and agent or master and servant between Centrix, CU Leasing or any credit union, or any affiliates or subsidiaries thereof, or to provide either party with the right, power or authority, whether express or implied, to create any such duty or obligation on behalf of the other party.

8.7 In the event of any dispute between Centrix and CU Leasing under this Agreement, Centrix and CU Leasing agree to submit the dispute to binding arbitration in Denver, Colorado. Such arbitration shall be governed by Colorado law and shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association; provided, however, that the Colorado Rules of Civil Procedure and the Colorado Rules of Evidence shall be applicable in any such arbitration proceeding. The parties shall each bear its own attorney fees, costs and expenses, and an equal share of the arbiter's and administrative fees of arbitration.

8.8 The individuals executing this Agreement on behalf of Centrix and CU Leasing do hereby represent and warrant that they are duly authorized by all necessary action to execute this Agreement on behalf of their respective principals.

#### 9. Loan Application Procedures.

9.1 Centrix will coordinate with and forward to CU Leasing all auto loan applications received by Centrix from any dealer where funding by a Colorado based credit union is sought by a credit union member.

9.2 CU Leasing will review each loan application received by CU Leasing, either from Centrix or from other dealers, for the purpose of determining whether a loan application meets lending criteria established by CU Leasing for prime rated auto loans. Any loan applications which CU Leasing determines to be sub-prime or non-prime will be returned or forwarded to Centrix for underwriting pursuant to the PMP.

9.3 Centrix will process each application returned or forwarded to Centrix by CU Leasing pursuant to the PMP and the Standard Loan Placement Agreement entered into by Centrix and each participating credit union.

9.4 Upon approval of a loan application by Centrix, Centrix shall prepare and deliver to the respective credit union a completely processed loan package pursuant to the Standard Loan Placement Agreement and the requirements of the PMP.

9.5 On or before the 10th day of each month, Centrix shall prepare and deliver to CU Leasing a report setting forth the name of each credit union funding a loan under the PMP and the total number of loans funded by such credit union during the previous month. Any compensation due to CU Leasing shall be remitted to CU Leasing by Centrix in connection with delivery of each monthly report.

IN WITNESS WHEREOF, the undersigned have executed this Agreement the date first above written.

CENTRIX FINANCIAL LLC

By: L. J. Hart  
Chairman  
Attn:

Address

CU LEASING CORPORATION

By: Drew D. Grayson  
Executive Vice President  
Attn:

Address

AGENCY AGREEMENT

THIS AGREEMENT, effective the 1st day of August, 1998, by and between Lyndon Property Insurance Company, 645 Maryville Centre Drive, St. Louis, Missouri 63141-5815 ("Lyndon") and Concur Financial, Inc., 7300 E. Union Avenue, Suite 1100, Denver, Colorado 80237 ("General Agent").

IN CONSIDERATION of the mutual covenants contained herein the parties agree as follows:

1. TERM

This Agreement shall continue for two (2) years from the Effective Date of August 1, 1998. It shall automatically renew annually thereafter, unless terminated hereunder.

2. AUTHORITY

(A)

General Agent is authorized to:

- (1) market Lyndon's Lender's Indemnity Insurance Program directly to financial institutions ("Accounts"),
- (2) issue and deliver policies, but only after compliance with the terms, conditions and provisions of the policies and any delivery requirements requested by Lyndon;
- (3) underwrite loans to assure compliance with defined underwriting requirements; and
- (4) collect, in trust, and remit promptly to Lyndon the premiums for the issued policies.

(B)

General Agent IS NOT authorized to:

- (1) make a contract for Lyndon;
- (2) change, alter or amend any contract made by Lyndon;
- (3) waive forfeitures, or the terms, conditions or provisions of any policy issued by Lyndon;
- (4) waive any required answer to any question in an application for a policy;
- (5) adjust, compromise or settle claims; or
- (6) bind reinsurance on behalf of Lyndon.

3. DUTIES AND RESPONSIBILITIES

(A)

Lyndon appoints General Agent as its exclusive representative in the states set forth in Exhibit A. ("States") attached hereto for the purpose of soliciting and procuring applications for Lyndon's Lender's Indemnity Insurance Program ("Indemnity Insurance") attached hereto as Exhibit B. This exclusive appointment shall be effective for two years from the Effective Date of this Agreement. General Agent shall solicit, underwrite loans to assure compliance with underwriting requirements, collect premiums for, and deliver all such Indemnity Insurance policies subject to the terms of this Agreement. Lyndon shall not appoint another general agent in the States to solicit Indemnity Insurance, and General Agent shall not market in the States another company's lender's indemnity insurance product during the two-year exclusive appointment period.

(B)

After the first twelve months following the Effective Date of this Agreement, the annual net written premiums processed by Lyndon for the Indemnity Insurance business produced by General Agent shall not be less than \$300,000 and shall not be more than \$3,000,000.

In the event the annual net written premiums fall below the minimum amount or exceed the maximum amount set forth in the preceding paragraph, then the mutual exclusivity provisions of Section 3 (A) shall be null and void and each party hereto shall be free to contract with others for the marketing of Indemnity Insurance, or the Agreement may be terminated pursuant to Section 10.

(C) General Agent agreed to sell Lyndon's Indemnity Insurance and issue and deliver policies subject to the terms of this Agreement, all rules of Lyndon, the terms of this Agreement, the provisions of Lyndon's policies, and all applicable laws.

(D) Neither this Agreement nor any Lyndon policy, contract or provision thereof, may be altered or waived by the General Agent except as may be specifically agreed upon in writing by an officer of Lyndon.

(E) All underwriting of loans and underwriting standards pertaining to Lyndon's policies shall conform to such standards set forth by Lyndon and such adjustments as may be made by Lyndon to such standards, which shall be promptly delivered in writing to General Agent. General Agent shall maintain files on all issued and declined business.

(F) General Agent and each of its employees who solicit insurance shall obtain and maintain all licenses required by all federal and state laws in every state in which the General Agent is authorized to act pursuant to this Agreement for the entire duration of this Agreement. General Agent and its employees shall have no authority to act as agents for Lyndon in soliciting, countersigning or delivering policies unless properly licensed as agents under applicable state and federal laws. General Agent shall cooperate with Lyndon in properly licensing all such employees and shall timely advise Lyndon of the need for any licenses so they may be timely obtained.

(G) General Agent shall monitor the Account's compliance with their premium remittance and other contractual requirements with Lyndon and compliance with the applicable federal and state insurance laws and regulations. General Agent shall immediately notify Lyndon of any evidence of noncompliance. Upon determination that premiums are past due from an Account, General Agent shall immediately contact the Account, determine the reason for the delinquency and demand full payment within seventy-two (72) hours.

(H) The adjudication of claims is the responsibility of Lyndon. General Agent shall investigate all claims immediately upon receiving notice of each claim and submit all information on the claim to Lyndon. General Agent shall have no authority to make any settlement or agreement regarding claims and is not authorized to change, modify or waive any of the terms or provisions of any Indemnity Insurance policy issued by Lyndon.

(I) General Agent is not authorized to incur any indebtedness or liability on behalf of Lyndon and shall not institute, defend or otherwise purport to act in the name of Lyndon in any legal proceedings. General Agent shall not publish any advertisements about Lyndon or its insurance products without prior written approval from an officer of Lyndon.

(J) General Agent shall prepare any itemized monthly statements of accounts or any other reports as requested by Lyndon.

(K) General Agent shall not place into use or distribute to any other persons or entities affiliated with General Agent, or knowingly permit such affiliated persons or entities to use any advertising or sales materials describing Lyndon's policies or other insurance products by name or by reasonable identification, whether or not covered by this Agreement or use the name of Lyndon or any of its affiliates without the prior written consent of Lyndon.

#### 4. RIGHT OF INSPECTION

General Agent will keep full and true records of all business transacted by General Agent on behalf of Lyndon. Lyndon shall have the right at its own expense and during normal business hours to inspect, copy and audit all the books and records relating to transactions hereunder at any office of General Agent or the office of any Account having Indemnity Insurance in force with Lyndon. Upon demand by Lyndon, General Agent will provide to Lyndon, within ten (10) business

77

days from the date of the demand, a full and detailed statement and accounting, in such form as Lyndon may require, relating to any business transacted by General Agent which is subject to this Agreement, including but not limited to, an accounting of all money received by General Agent from any business which is subject to this Agreement.

#### 5. RECEIPT AND REMITTANCE OF FUNDS

General Agent shall collect all premiums and any applicable state or local premium taxes. All funds received by General Agent shall be in a fiduciary capacity and as an agent of Lyndon. All such funds shall be treated as property held in trust for the sole benefit and use of Lyndon and held separate from the other funds of General Agent. General Agent shall be responsible for the accurate accounting and immediate remittance to Lyndon of all such funds. If legal action is required to collect any amounts due Lyndon from General Agent, General Agent shall pay all reasonable costs of collection, including reasonable attorney's fees.

General Agent agrees to remit to Lyndon, by the 15th day of the month, all business with an effective date in the preceding month, including: (1) all net premiums due thereon (net premiums shall be defined as gross premiums minus authorized refunds) minus General Agent's compensation set forth in Section 6; and (2) monthly reports and other information as required by Lyndon.

#### 6. COMPENSATION

Lyndon shall pay General Agent twelve and one-half percent (12½%) of net premiums (defined as gross premiums minus authorized refunds) as compensation on all direct Indemnity Insurance sold by General Agent.

General Agent will also be paid a profit sharing commission on business in accordance with the Contingent Commission Addendum attached to and incorporated in this Agreement.

Lyndon may, at any time, offset against monies due to General Agent any debts due from General Agent to Lyndon, or any monies paid or liabilities incurred by Lyndon as a result of acts or omissions of General Agent, its writing agents, sub-agents or employees.

#### 7. REFUNDS OF UNPAID PREMIUM

If any premiums are required to be returned to insureds for any reason, General Agent shall promptly make or credit to the insured a full refund of the unearned premium, including unearned commission, in accordance with the applicable refund formula as required by the state in connection with the policies.

Lyndon and General Agent, and any other party that received a portion of the premiums, are responsible for that portion of the refund equal to the percentage of premiums respectively received.

The obligations of Lyndon and General Agent, and General Agent's representatives under the terms of this Section shall survive the termination of this Agreement and shall be in effect until such time as no further refunds are due on the Indemnity Insurance administered hereunder.

#### 8. INDEPENDENT CONTRACTOR

The relationship between the parties to this Agreement is that of independent contractors and not employer-employee or master-servant.

#### 9. ASSIGNMENT

Neither this Agreement nor any benefits accruing hereunder shall be assigned in whole or in part without prior written consent of Lyndon. This limitation includes absolute and collateral assignments.

10.

After the initial two-year term of this Agreement, either party may terminate this Agreement at any time, for any reason or for no reason, upon one hundred eighty (180) days written notice to the other party, or upon ninety (90) days written notice to the other party if the loss ratio exceeds sixty percent (60%) for the Indemnity Insurance business.

During the initial two-year term of this Agreement and thereafter Lyndon may terminate this Agreement immediately upon the occurrence of any of the following:

- a. General Agent misappropriates funds or violates criminal or civil laws;
- b. General Agent files a voluntary petition in bankruptcy or for reorganization under the bankruptcy laws, makes any assignment of his property for the benefit of creditors, consents to the appointment of any receiver or trustee, becomes insolvent, or is subject to the entry of any order pursuant to the bankruptcy laws approving any involuntary petition in bankruptcy against General Agent;
- c. Any transfer of 25% or more of the ownership of General Agent without the prior written consent of Lyndon;
- d. Lyndon reasonably concludes that ~~General Agent has~~ committed a ~~reckless~~ act under this Agreement;
- e. The breach of any provision of this Agreement, including but not limited to, the failure to remit any monies due or belonging to Lyndon as required by the terms of this Agreement;
- f. The annual net written premiums processed by Lyndon for the Indemnity Insurance business produced by General Agent is less than \$500,000 or is more than \$3,000,000.

Pursuant to the terms of the policy or agreement, Lyndon shall have the option to terminate any Indemnity Insurance policy or other agreement that it determines to be unsatisfactory. If the loss ratio for the Indemnity Insurance business of an Account exceeds fifty-two and one-half percent (52.5%), Lyndon shall have the option to terminate the Indemnity Insurance policy or other agreement with said Account.

#### 11. WAIVER

Lyndon's failure to insist upon strict compliance of its rules or provisions of this Agreement shall not constitute a waiver of such rules or provisions, which shall continue in full force and effect.

#### 12. BOND OF INDEMNITY

General Agent will furnish Lyndon, upon request, with a satisfactory bond of indemnity to guaranty the faithful performance of all duties, obligations and undertakings created by or arising out of this Agreement.

#### 13. ARBITRATION

- (A) In the event any dispute or difference of opinion with respect to this Agreement is unresolved after forty-five (45) days, it is hereby mutually agreed that such dispute or difference of opinion shall be submitted to arbitration in accordance with the rules of the American Arbitration Association, and subject to the applicable provisions of the statutes of the state of Missouri. One arbitrator shall be chosen by General Agent, the other by Lyndon, and an umpire shall be chosen by the two arbitrators thus selected before they enter upon arbitration, all of whom shall be active or retired disinterested executive officers of insurance companies

other than the parties, their subsidiaries or affiliates. In the event that either party should fail to choose an arbitrator within thirty (30) days after the other has given notice of its appointment with an arbitrator, the latter shall also appoint the second arbitrator. If the two arbitrators appointed are unable to agree upon the selection of an umpire within thirty (30) days following the appointment of the second arbitrator, the selection of the umpire shall be made by the President of the American Arbitration Association or its successor.

- (B) Each party shall present its case to the arbitrators within thirty (30) days following the date of appointment of the umpire. The arbitrators shall consider this Agreement as an honorable engagement rather than merely as a legal obligation and they are relieved of all judicial formalities and may abstain from following the strict rules of law. The decision of the arbitrators shall be final and binding on both parties; but in case of failure to agree, they shall call in the umpire and the decision of the majority shall be final and binding upon both parties.
- (C) Each party shall bear the expense of its own arbitrator, and shall jointly and equally bear with the other the expense of the umpire and of the arbitration. In the event that the two arbitrators are chosen by one party, as above provided, the expense of the arbitrators, the umpire and the arbitration shall be equally divided between the two parties.
- (D) Any arbitration proceedings shall take place at a location mutually agreed upon by the parties to this Agreement, but in St. Louis, Missouri, if a location cannot be mutually agreed upon.  
This provision shall survive the termination of this Agreement.

#### 14. CONFIDENTIAL INFORMATION

All information provided to General Agent by Lyndon regarding its customers or products is privileged and confidential. General Agent will not disclose such information to any other person, firm or corporation without the prior written consent of Lyndon.

#### 15. REBATES

General Agent will not pay or allow any rebate of premium in any manner whatsoever, directly or indirectly.

#### 16. SECURITY INTEREST

General Agent hereby grants to Lyndon a security interest in all compensation of every description, including future compensation, due to General Agent by Lyndon or its affiliates and subsidiaries, to secure the payment of all claims or debts, including any and all claims Lyndon may have against General Agent.

#### 17. LEGAL OR ADMINISTRATIVE ACTIONS

If any legal or administrative action is brought by any person, state, insurance department, or any other federal or state regulatory agency against Lyndon by reason of General Agent's acts, faults, or failures to act, or by reason of the acts, faults, or failures to act of any employee appointed by General Agent, General Agent will reimburse Lyndon for all monies Lyndon is required to pay as a result of such legal or administrative action, including attorneys' fees and expenses, except in those cases where Lyndon, in its sole judgment, determines that General Agent should not be held responsible.

#### 18. INDEMNIFICATION

The General Agent agrees to indemnify and save harmless Lyndon against any liability, loss or damage which the Company may sustain or incur directly or indirectly due to or arising out of any obligation, act, or transaction created or done by the General Agent or its employees in violation of, in excess of, or

in contravention of the power and authority of the General Agent set forth and described in this Agreement. The General Agent shall be liable for all actions of the General Agent.

#### 19. NOTICES FROM REGULATORY AGENCIES

General Agent shall forward promptly to Lyndon all correspondence pertaining to this Agreement received from any regulatory or law enforcement agency.

#### 20. GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the laws of the State of Missouri. If any provision is held void, inoperative or unlawful, the remainder of the contract shall continue in full force and effect.

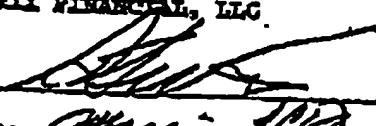
#### 21. ENTIRE CONTRACT

This Agreement contains the entire contract between the parties, and may not be modified except in writing signed by General Agent and an authorized officer of Lyndon. This Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors, representatives and assigns. No oral promises or representations shall be binding. This Agreement supercedes any and all previous agreements between Lyndon and General Agent. No addendum to this Agreement shall be effective unless it is in writing and signed by General Agent and an authorized officer of Lyndon.

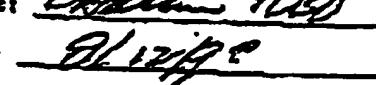
IN WITNESS WHEREBY, this Agreement has been executed in duplicate the day and year set forth below.

THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION  
WHICH MAY BE ENFORCED BY THE PARTIES.

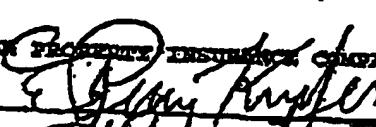
CREDITRY FINANCIAL, LLC

By: 

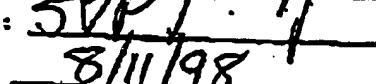
Title: 

Date: 

LYNDON PROPERTY INSURANCE COMPANY

By: 

Title: 

Date: 

10CF6-38

~~CONFIDENTIAL~~

EXHIBIT A

STATES FOR EXCLUSIVE APPOINTMENT

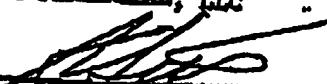
This Exhibit A is attached to and made a part of the Agency Agreement, effective the 1st day of August, 1998, by and between Lyndon Property Insurance Company ("Lyndon") and Centrix Financial, LLC ("General Agent").

The states in which General Agent has an exclusive appointment for Lyndon's Indemnity Insurance are:

Arizona  
California  
Colorado  
Kansas  
Minnesota  
Nebraska  
Oklahoma  
Oregon  
Texas  
Washington

IN WITNESS WHEREOF, this Exhibit A has been executed in duplicate the day and year set forth below.

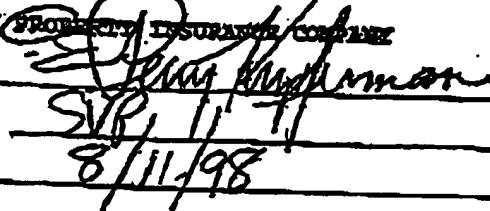
CENTRIX FINANCIAL, LLC

By: 

Title: 

Date: 

LYNDON PROPERTY INSURANCE COMPANY

By: 

Title: 

Date: 

18076-98

**EXHIBIT B**

**Copy of Indemnity Insurance policy to be attached as Exhibit B.**

Scheduled Property Floater Inland Marine Policy  
LENDER'S INDEMNITY COVERAGE  
(called "Policy")

LYNDON PROPERTY INSURANCE COMPANY  
[645 MARYVILLE CENTRE DRIVE  
ST. LOUIS, MO 63141-5815]  
[(800) 950-6060]

Policy No. \_\_\_\_\_

**DECLARATIONS**

NAMED INSURED  
AND ADDRESS:

Policy Period: Effective Date \_\_\_\_\_ at 12:01 a.m. standard time at the address of the NAMED INSURED.  
Expiration Date: This Policy shall automatically renew on the Policy anniversary date shown above until  
cancelled or a nonrenewal notice is sent under the conditions of this Policy.

AMOUNT OF INSURANCE	SCHEDULED PROPERTY FLOATER INLAND MARINE POLICY	MAXIMUM PREMIUM	PREMIUM
LENDER'S INDEMNITY COVERAGE The actual repossession losses incurred up to [S5,000] per Vehicle.	<b>SAMPLE</b>	\$ Per FINANCE CONTRACT	Per monthly report.

**SCHEDULE OF ELIGIBLE COLLATERAL:** The following COLLATERAL is eligible for coverage under this Policy. The  
COLLATERAL described shall be eligible for coverage on the Policy effective date.

LICENSED RESIDENT AGENT COUNTERSIGNATURE \_\_\_\_\_

If required by law

INSURING AGREEMENT

LYNDON PROPERTY INSURANCE COMPANY (hereinafter called the COMPANY), in consideration of the payment of the premium, subject to the Amount of Insurance stated in the Declarations and to all of the terms of this Policy and any applicable endorsements as may be added hereto, in reliance upon statements in the Declarations, and the NAMED INSURED'S use of credit under writing standards approved by the COMPANY in writing, agrees with the NAMED INSURED as follows:

II. DEFINITIONS

- A. "ACCOUNT DEBTOR" means the person or persons obligated to the NAMED INSURED under a FINANCE CONTRACT, conditional sale contract, chattel mortgage, or SECURITY AGREEMENT of any form involving a MOTOR VEHICLE.
- B. "COLLATERAL" means the MOTOR VEHICLE(S), as listed on the Declarations, in which the NAMED INSURED obtained a SECURITY AGREEMENT upon entering into, or acquiring, a FINANCE CONTRACT(S).
- C. "DEFAULT" means NAMED INSURED or its representative declining all sums owing under a FINANCE CONTRACT(S) due and payable after the occurrence of a violation of the FINANCE CONTRACT or SECURITY AGREEMENT, such as the failure of an ACCOUNT DEBTOR to make payments to the NAMED INSURED at the time and in the manner and amount required by the SECURITY AGREEMENT if such failure may reasonably be expected to place an account in jeopardy or to increase the likelihood of loss thereafter. In the event the ACCOUNT DEBTOR files a petition for relief under the bankruptcy laws and subsequently an order is entered confirming a plan which modifies the ACCOUNT DEBTOR'S obligations under the FINANCE CONTRACT, conditional sale contract, chattel mortgage, or SECURITY AGREEMENT, this shall constitute a DEFAULT.
- D. "FINANCE CONTRACT(S)" means a FINANCE CONTRACT, conditional sale contract, chattel mortgage or SECURITY AGREEMENT of any form involving the financing of the purchase of a MOTOR VEHICLE by an ACCOUNT DEBTOR which is originated or acquired by NAMED INSURED. FINANCE CONTRACT does not include a lease.
- E. "INSURED'S INTEREST IN THE COLLATERAL" means the unpaid balance owed to the NAMED INSURED as of the date of repossession, including payments made, less than ninety (90) days past due; less any unearned finance charges, interest, late fees, processing, handling, or other charges computed on a simple interest or actuarial basis.
- F. "MOTOR VEHICLE REPOSSESSION LOSS" means the difference between the INSURED'S INTEREST in the COLLATERAL computed as of the date of DEFAULT and the greater of the gross sale price of the vehicle after repossession and the "Trade-In" value of the appropriate regional edition of the National Auto Dealer Association (NADA) then in effect at the date of DEFAULT.
- G. "MOTOR VEHICLE" means automobile, utility vehicles, light pickup trucks and vans intended for personal use.
- H. "NAMED INSURED" shall mean the entity identified as the NAMED INSURED in the Declarations section of this Policy.
- I. "NOTICE OF CLAIM" shall mean a detailed sworn proof of loss on a form approved and provided by the COMPANY.
- J. "PROGRAM VEHICLES" are vehicles which are purchased from a vehicle leasing company or manufacturer, or which were owned by a vehicle leasing company or manufacturer and which are sold at auction, and which have less than 20,000 actual miles at the time of sale to an ACCOUNT DEBTOR.
- K. "REPOSESSION" means the physical taking of COLLATERAL by the NAMED INSURED, or its agent or designee, after DEFAULT by the ACCOUNT DEBTOR, whether accomplished by voluntary abandonment or relinquishment of possession by the ACCOUNT DEBTOR, or by legal proceedings under whatever name which is proper under the provisions of the Uniform Commercial Code or other applicable statute or regulation and which permits valid disposition of the COLLATERAL by the NAMED INSURED.
- L. "SECURITY AGREEMENT" means the agreement which creates or provides for the NAMED INSURED'S SECURITY INTEREST in the COLLATERAL.

M. "**SECURITY INTEREST**" means an interest in the MOTOR VEHICLE which secures the payment or performance of a FINANCE CONTRACT(S) to the NAMED INSURED other than a wholesale or floor plan obligation.

N. "**REDEMPTION PERIOD**" means the minimum period required by federal or state statute or regulation, that the ACCOUNT DEBTOR has to redeem a MOTOR VEHICLE following a REPOSSESSION.

III. **MAXIMUM LIMIT OF LIABILITY**

The maximum limit of liability for each MOTOR VEHICLE shall be the lower of:

- the difference between the INSURED'S INTEREST in the COLLATERAL computed as of the date of DEFAULT and the greater of the gross sale price of the vehicle after repossession and the "Trade-In" value of the appropriate regional edition of the National Auto Dealer Association (NADA) then in effect at the date of DEFAULT; or
- \$5,000.

The maximum limit for all MOTOR VEHICLES covered under this policy shall be no greater than the number of MOTOR VEHICLES multiplied by the maximum limit of liability for each vehicle as stated above.

IV. **COVERAGE**

The COMPANY indemnifies the NAMED INSURED against MOTOR VEHICLE REPOSSESSION LOSSES for MOTOR VEHICLE FINANCE CONTRACT(S) purchased by an ACCOUNT DEBTOR during the Policy period and reported in accordance with this Policy.

Upon satisfaction of the following requirements by the NAMED INSURED, the COMPANY shall pay to the NAMED INSURED the MOTOR VEHICLE REPOSSESSION LOSS as computed in accordance with the Maximum Limit of Liability.

A. The NAMED INSURED must require the ACCOUNT DEBTOR to provide physical damage insurance on the COLLATERAL with the NAMED INSURED as loss payee.

B. Coverage under this Policy does not commence until the ACCOUNT DEBTOR has made the first scheduled payment of the FINANCE CONTRACT.

C. Except in the event of the filing of a petition by or against the ACCOUNT DEBTOR, the NAMED INSURED shall:

1. Have taken possession of the COLLATERAL in accordance with the provisions of the Uniform Commercial Code or other controlling statute or regulation, and

2. Thereafter have proceeded in accordance with such Code or other statute or regulation to foreclose the interest of the ACCOUNT DEBTOR in the COLLATERAL.

D. The COLLATERAL must be REPOSEDSED by the NAMED INSURED with clear title before payment can be made. Payment will not be made for SECURITY AGREEMENTS for which there is a DEFECTIVE TITLE.

E. Upon taking the COLLATERAL, the NAMED INSURED shall cause the COLLATERAL to be moved to a commercially reasonable place for resale and, until the final settlement, attempt to sell or cause to be sold the COLLATERAL in a commercially reasonable manner in an attempt to satisfy any outstanding indebtedness of an ACCOUNT DEBTOR to the NAMED INSURED. The NAMED INSURED will take reasonable precautions to protect the COLLATERAL from loss or damage prior to resale.

F. Upon expiration of the REDEMPTION PERIOD of the COLLATERAL, or thirty (30) days beyond taking of the COLLATERAL, whichever is sooner, (except in those states where the REDEMPTION PERIOD is longer than thirty (30) days, in which case, upon expiration of the REDEMPTION PERIOD), the NAMED INSURED shall file with the COMPANY an appropriate NOTICE OF CLAIM.

G. In the event of the filing of the petition in bankruptcy by or against the ACCOUNT DEBTOR, the NAMED INSURED shall file with the COMPANY an appropriate NOTICE OF CLAIM in the dollar amount of the balance outstanding, based on an actual or simple interest loan amortization, at the time of the filing of the bankruptcy petition.

H. Notwithstanding any other provisions of this Policy to the contrary, and with respect to any FINANCE CONTRACT(S) on which payments are delinquent three (3) consecutive payments or more, the COMPANY shall, within fifteen (15) days of the COMPANY'S receipt of a NOTICE OF CLAIM with respect thereto, pay to the NAMED INSURED the amount of the related MOTOR VEHICLE REPOSSESSION LOSS under this Policy.

V. EXCLUSIONS

This insurance shall not indemnify the NAMED INSURED in respect to any loss or losses:

- A. resulting from FINANCE CONTRACT(S) effected and losses occurring prior to the effective date of this Policy;
- B. resulting directly or indirectly from any dishonest, fraudulent or criminal act of any officer or employee of the NAMED INSURED; or anyone acting in any capacity as agent for the NAMED INSURED in making a loan;
- C. resulting from any collection, repossession, storage or lien expenses or cost of appraisal and legal expenses;
- D. vehicles used in commercial activities.

VI. RATES/PREMIUM

The NAMED INSURED agrees to retain a copy of each and every subspace and nonprime FINANCE CONTRACT(S) and transmit a monthly report to the COMPANY no later than the 15th day of the following month, and to pay to the COMPANY premiums in advance based on the Declarations subject to a minimum premium as shown in the Declarations for each FINANCE CONTRACT.

VII. CONDITIONS

- A. CONTRACTS INCLUDED - NAMED INSURED agrees to insure each and every subspace and nonprime FINANCE CONTRACT(S) with COMPANY. COMPANY reserves the exclusive source of this coverage originating during the term of the Policy.
- B. IMPAIRMENT OR INABILITY TO PAY - Under no circumstances will any payment be made for a loss under this Policy unless the insured or the account debtor is unable to pay by reason of the ACCOUNT DEBTOR having DEFAULTED in his obligation to the NAMED INSURED.
- C. INTEREST RATES - Coverage is not intended to fixed interest rates and is only applicable to FINANCE CONTRACT(S) with fixed interest financing.
- D. The NAMED INSURED shall keep the COMPANY fully and promptly informed of any information coming to its knowledge at any time that would indicate the ACCOUNT DEBTOR had misrepresented facts which, if truly represented, would probably have resulted, under the standards approved in writing by the COMPANY, in the refusal of credit.
- E. DECLARATIONS - By acceptance of this Policy, the NAMED INSURED agrees that the statements in the Declarations are its agreements and representations, that this Policy is issued in reliance upon the truth of such representations, and that this Policy, together with any application(s) or representations in connection therewith, embodies all agreements existing between itself and the COMPANY or any of its agents relating to this insurance.
- F. MISREPRESENTATION AND FRAUD - This Policy shall be void if the NAMED INSURED has concealed or misrepresented any material fact or circumstance concerning this insurance or the subject thereof or in case of any fraud, attempted fraud or false swearing by the NAMED INSURED touching any matter relating to this insurance or subject thereof, whether before or after a loss.
- G. POLICY PERIOD, TERRITORY - This Policy shall be effective on the date shown on the Declarations and shall be automatically renewed on the Policy anniversary date until canceled or nonrenewed in accordance with this Policy. This Policy applies only to loss in connection with MOTOR VEHICLES purchased by the ACCOUNT DEBTOR and within the United States of America, its territories or possessions, or Canada. There shall be no coverage under this Policy when it is determined that the MOTOR VEHICLE has been removed from the United States of America, its territories, or Canada.

**H.** **ASSIGNMENT** - Assignment of interest under this Policy shall not bind the COMPANY until its consent is endorsed hereon and such consent shall not be unreasonably withheld. However, if the NAMED INSURED dies, this insurance shall cease to exist, this insurance shall terminate.

**I.** **1.** To the NAMED INSURED'S legal representative, as the NAMED INSURED, but only while acting within the scope of his duties as such; or  
**2.** To the person having temporary custody of the property of the NAMED INSURED but only until the appointment and qualification of the legal representative.

**J.** **SETTLEMENT BY NAMED INSURED** - Any settlement made by or for the NAMED INSURED on any COLLATERAL secured by FINANCE CONTRACT in respect of which there is a claim under this Policy without written authority from the COMPANY or its representatives to make such settlement, shall render this insurance void as to any loss in respect to that COLLATERAL.

**K.** **ACTION AGAINST COMPANY** - No action shall be against the COMPANY unless, as a condition precedent thereto, there shall have been full compliance with all other terms of the Policy, nor until thirty (30) days after NOTICE OF CLAIM is filed and the amount of loss is determined as provided in this Policy.

**L.** **SUIT AGAINST COMPANY** - No suit, action or proceeding for the recovery of any claim under this Policy shall be sustainable in any court of law or equity unless the same be commenced within twelve (12) calendar months next after discovery by the NAMED INSURED of the occurrence which gives rise to the claim. Provided, however, that if such limitation is invalid by the laws of the State within which this Policy is delivered or issued for delivery, then any such claim(s) shall be valid unless such action, suit or proceeding be commenced within the shortest limit of time permitted by the laws of such State.

**M.** **SUBROGATION** - In the event of any payment under this Policy, the COMPANY shall be subrogated for the NAMED INSURED'S rights of recovery therefor against any person or organization and the NAMED INSURED shall execute and deliver all instruments and papers and do whatever else is necessary to secure such rights. The NAMED INSURED shall do nothing after loss to prejudice such rights.

**N.** **EXTENSION OF MATURITY** - This Policy does not permit extensions of maturity without the consent of the COMPANY and may be extended at any time for regular course of business without prejudice to the rights of the NAMED INSURED, provided that it does not exceed the total period of the loan, including extensions, exceeding two months beyond the original scheduled term, provided that this limitation shall not apply to any extension when the same may result in the same due before interest and carrying charges, it being agreed that such extension shall be considered a new loan and that premium thereon for coverage under this Policy shall be paid accordingly.

It is further agreed, that if a loan made prior to the effective date of this Policy shall be renegotiated subsequent to such effective date, such renegotiated loan shall be considered to be a new loan and premium thereon shall be paid accordingly.

**O.** **OTHER INSURANCE** - This insurance shall apply only as excess insurance over any other valid and collectible insurance which would apply in the absence of this Policy. In no event will this Policy contribute with any other valid and collectible insurance.

**P.** **WAIVER OR CHANGE OF PROVISIONS** - Notice to any agent or knowledge possessed by any other person shall not affect a waiver or a change in any part of this Policy or stop the COMPANY from asserting any right under the terms of this Policy, nor shall the terms of this Policy be waived, changed or modified, except by endorsement issued by the COMPANY to form a part of this Policy.

**R.** **CANCELLATION** - This Policy may be cancelled by the NAMED INSURED by surrender thereof to the COMPANY or by mailing to the COMPANY written notice stating when thereafter the cancellation shall be effective. This Policy may be cancelled by the COMPANY by mailing to the NAMED INSURED at the address shown in the Declaration, written notice stating when, not less than sixty (60) days thereafter, such cancellation shall be effective. The mailing or delivery of the notice as aforesaid shall be sufficient proof of notice. However, in the case of misrepresentation and/or fraud, or the NAMED INSURED'S, or its agent's or representative's, failure to adhere to credit underwriting standards approved in writing by the COMPANY, cancellation by the COMPANY shall be effected upon ten (10) days written notice.

The time of surrender or the effective date and hour of cancellation stated in the notice shall become the end of the Policy period. Delivery of such written notice either by the NAMED INSURED or by the COMPANY shall be equivalent to mailing. In the event of such cancellation, either by the COMPANY or by the NAMED INSURED, the COMPANY shall remain liable hereunder with respect to only those FINANCE CONTRACTS of the NAMED INSURED in effect prior to the effective date of cancellation and for which the applicable premium has been paid.

Q. **NONRENEWAL** - The COMPANY may elect not to renew this Policy at its anniversary date by mailing written notice to the NAMED INSURED at least thirty days before the anniversary date.

In the event of nonrenewal the COMPANY shall remain liable hereunder with respect to only those FINANCE CONTRACTS of the NAMED INSURED in effect prior to the effective date of nonrenewal and for which the applicable premium has been paid.

R. **INSPECTION AND AUDIT** - The COMPANY shall be permitted, but not obligated, to inspect the NAMED INSURED'S property and operations which relates to the NAMED INSURED'S accounts at any time. Neither the COMPANY'S right to make inspections or the making thereof shall constitute an undertaking on behalf of or for the benefit of the NAMED INSURED or other to determine or warrant that such property or operations are safe and healthful, or are in compliance with any law, rule or regulation. For the purposes of determining the amount of premium due the COMPANY under this insurance, the COMPANY or its representatives may at any reasonable time during business hours examine and audit the NAMED INSURED'S books and records which relate to the NAMED INSURED'S ACCOUNTS. The examination or audit can be conducted at any time during the Policy period and extension thereof. Examinations and audits may also be conducted within three years after the final termination of this Policy or until after all FINANCE CONTRACT(S) issued by COMPANY have expired, whichever is later.

S. **Premium Changes** - The COMPANY reserves the right to change the NAMED INSURED'S premium: 1.) on each anniversary of this Policy; 2.) when the terms of this Policy change; or 3.) because of experience.

T. **CONFORMITY TO STATUTE** - Terms of this Policy which are in conflict with the statutes of the State wherein this Policy is delivered or issued for delivery are hereby amended to conform to such statutes.

In Witness Whereof, the COMPANY has caused this Policy to be executed and delivered, and this Policy shall not be valid unless countersigned by our duly authorized Agent, you to whom it may concern:

**SAMPLE**

[Secretary]

[President]

Loan Volume Report

Loans Booked from Inception through June 29th, 1999

This report was printed on 2/26/2003



Pool Number: 1 NEW HORIZONS CCU

Total Loan Amount: \$29,524.53

Number of Loans: 2

Pool Number: 3 FIRST CHARTER FCU

Total Loan Amount: \$1,229,332.91

Number of Loans: 101

Pool Number: 4 DELAWARE MUNICIPAL FCU

Total Loan Amount: \$25,396.75

Number of Loans: 2

Pool Number: 5 PUBLIC SERVICE CU

Total Loan Amount: \$70,200.86

Number of Loans: 5

Pool Number: 6 VISA FED COMMUNITY BANK

Total Loan Amount: \$10,831.14

Number of Loans: 1

Pool Number: 8 1ST CHOICE BANK

Total Loan Amount: \$103,242.24

Number of Loans: 11

Pool Number: 9 ENTRI FCU

Total Loan Amount: \$782,675.93

Number of Loans: 66

Pool Number: 100 BRANCH 100 POOL 100

Total Loan Amount: \$22,314.01

Number of Loans: 1

Pool Number: 101 MBCU - CHEROKEE CITY

Total Loan Amount: \$84,821.83

Number of Loans: 7

Pool Number: 203 MBCU - FAIRWINDS CREDIT UNION

Total Loan Amount: \$15,311.06

Number of Loans: 1

Pool Number: 5002 BANK OF ALAMEDA

Total Loan Amount: \$2,496,123.65

Number of Loans: 195

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## REPORT TOTALS

Total Loan Amount: \$4,869,774.91

Number of Loans: 392

**Centrix Financial Memorandum  
Regarding FDIC Subprime Lending Guidance  
Of March 1999 and January 2001**

In a March 1999 report titled "Interagency Guidance on Subprime Lending," the FDIC identified several serious concerns regarding bank involvement in subprime lending. These concerns relate primarily to the cost and risk of designing, operating, staffing and monitoring profitable subprime lending systems. Expanded guidance was provided in a letter issued on January 31, 2001.

Centrix Financial ("Centrix"), a financial and risk management company, concurs with the FDIC's evaluation of these risk factors. Centrix Financial offers a comprehensive, customized special financing lending system that addresses all of the concerns and recommendations offered by the FDIC and other government agencies that have oversight responsibility in this or related areas. The patent-pending Centrix™ Portfolio Management Program (PMP) enables banks to safely participate in the profitable special finance market without exposing themselves to the costs and risks identified by the FDIC.

**Centrix meets the FDIC recommendations regarding subprime lending due to two key strengths of the PMP program:**

- **Centrix Guaranteed Asset Protection Policy:** The Centrix PMP subprime portfolio has a charge off rate that is essentially the same as that for "A" loans. The bank is protected up-front against principal loss through an exclusive Guaranteed Asset Protection (GAP) insurance policy, which transfers the majority of the risk of loss from the bank to the insurance company. Centrix does not place the loans in a pool that is then securitized through Wall Street or private funding sources, but rather insures each loan as it is written. Centrix's unique process enables banks to minimize the need to increase their reserves to support subprime lending activities.
- **Centrix Turnkey Program:** Centrix Financial ensures fixed expenses by providing a turnkey program that includes handling all aspects of underwriting, servicing, collections and asset reallocation. Centrix provides the internal operating systems and staff that are required to manage the subprime lending activities. The bank only reviews the PMP activities and loans to ensure that they continue to meet the bank's subprime lending goals and regulatory requirements. The only cost to the bank is a fee per loan made and serviced. Centrix's systems are in place and operating successfully, managed by executives with extensive special finance lending experience, and have an established track record of generating returns of 9-11%. (Actual return depends on term, APR, and economic conditions and is calculated before servicing fees. In some cases, the return may exceed 11%.)

#### **CENTRIX FINANCIAL OVERVIEW**

Centrix Financial is a financial and risk management firm that specializes in providing an innovative, turnkey program that enables participating financial institutions to enter the special finance auto loan market in a safe and profitable manner. When Centrix originally began in 1990, it was involved in the development and sale of institutional pools. In 1998, Centrix introduced the Centrix PMP and began serving the special finance auto loan market with this unique product.

Using their extensive experience in the special finance lending arena, Centrix's senior management team developed unique financial programs for the auto finance industry, including risk management systems and procedures, which identify "premium" special finance candidates. Centrix broke new ground in the auto

finance market with the first time availability to financial institutions of insurance coverage on a loan-by-loan basis. By developing the patent-pending Portfolio Management Program (PMP) specifically to assist financial institutions to safely enter the special finance consumer finance area, Centrix became the only firm that delivers this institutional financial coverage with a complete turnkey package.

#### PMP PRODUCT DESCRIPTION

The PMP is designed specifically for special finance auto lending, which includes non-prime and sub-prime lending. All of its lending guidelines and operating procedures are designed to meet the most rigorous standards of all State and Federal oversight regulatory agencies, including the FDIC.

Centrix presents the bank with a completed transaction that is covered by a Guaranteed Asset Protection (GAP) policy, which is provided through a national "A" rated insurance company. The GAP policy protects the financial institution against risk of principal loss by covering the difference between what a repossessed car is sold for and the face amount of the loan. By insuring against principal loss on a loan-by-loan basis, Centrix transfers the majority of risk of loss from the financial institution to the insurance company. This takes the bank out of the loss business by setting up a guaranteed reserve pool that does not affect the lender's capital structure. The financial institution has the ability to make or reject any or all loan packages that Centrix presents. This ensures that the bank has the flexibility to increase or decrease its participation level as it chooses. In addition, through the Centrix Liquidity Control process, the bank can sell all or a portion of its PMP portfolio in order to recapture capital and receive an ongoing strip of interest income for the life of the loans sold.

The Centrix PMP also allows banks to minimize the need to develop, manage and monitor subprime lending functions. The bank reviews Centrix Financial's systems, procedures and guidelines and adopts the program in total as its subprime lending policies. Centrix handles all aspects of loan underwriting, servicing, collections and asset reallocation. Centrix provides monthly statements and trial balances and remits cash payments every two weeks. In addition, the financial institution has 24/7 online access to financial data regarding its loan portfolio.

#### FDIC RECOMMENDATIONS:

The FDIC states that, "institutions that engage in subprime lending...should have board-approved policies and procedures, as well as internal controls that identify, measure, monitor and control...additional risks" of subprime lending. It also states that institutions engaging in subprime lending should have "systems in place commensurate with their level of risk." It found that many subprime lenders left the market due to "turmoil in the equity and asset-backed securities market" and "poorly structured subprime lending programs."

Centrix provides policies, procedures and systems for identifying, measuring, monitoring and controlling the risk of subprime lending. These operating strengths, combined with its up-front, insurance coverage against loss of the loan principal, makes the charge-off rate of PMP loans similar to those of "A" loans.

Specifically, the FDIC's concerns and recommendations, which are quoted from the March 1999 and January 2001 reports, are addressed by the Centrix PMP as described on the following pages.

Capitalization/Allowance for Loan and Lease Loss (ALLL) Adequacy: "the level of capital institutions need to support this activity should be commensurate with the additional risks incurred," "examiners should assess the adequacy of the ALLL to ensure that the portion allocated to the subprime portfolio is sufficient to absorb estimated credit losses for the portfolio."

- The GAP insurance policy that covers each Centrix PMP loan dramatically reduces the risks associated with subprime lending activities and results in a charge-off rate that is essentially the same as that associated with "A" loans. The impact on the capital structure of the bank is negligible because the insurance policy is issued to the bank, which is the lienholder.
- Centrix requires the financial institution to provide the following documentation to ensure that the institution is properly able to manage how the PMP stays in compliance with their subprime lending goals and policies:
  - Board of Director's approval of participation in the Centrix PMP
  - Board of Director's/Authorized Person's approval of the Centrix Credit Guidelines
  - Board approval of subprime or special finance lending allocation
  - Board approval and copy of policy for operating with the Centrix PMP
  - Procedure for determining Allowance for Loan and Lease Loss
- The financial institution makes or declines loan packages on a case-by-case basis. There is no obligation for a certain level of participation. Therefore, the institution's management can continually ensure that the level of capital and ALLL involved in these activities remains within their guidelines.
- The cost of participating in the PMP is based on the amount of PMP loans that the bank makes. The bank can easily control its costs associated with subprime lending activities. The bank has minimal overhead related to its subprime lending activities.
- The 1999, 2000 and 2001 Centrix PMP Portfolio results provide an adequate track record of results upon which the financial institution's management can assess the "size, concentration level, and relative risk of the institution's subprime lending activities." The institution has the data it requires to conduct "stress testing as a tool for estimating unexpected losses in its subprime lending pools."

Planning and Strategy: "management should ensure that proposed activities are consistent with the institution's overall business strategy and risk tolerances and that...(they) have addressed critical business risk issues...includ(ing) the costs associated with...personnel,...technology,...and feedback and control systems"

- Centrix provides comprehensive Credit Guidelines that the bank adopts as its own subprime lending policies. Centrix only submits loan packages that have been evaluated and approved according to these underwriting guidelines.
- Centrix has strict policies regarding the planning and analysis that the financial institution must complete prior to participating in the Centrix PMP. Specifically, this includes:
  - Completion of the 1-2 day long Due Diligence Training Session, as demonstrated by a signed Due Diligence Completion Certificate, which explains all aspects of Centrix PMP operations. This session also addresses procedures related to regulatory compliance. The financial institution receives comprehensive manuals that document this information.
  - Centrix requires the financial institution to provide documentation of the Board of Director's approval of participation in the Centrix PMP, the allocation to the program, and the policy for operating with the Centrix PMP. Documentation of approval of the Centrix Credit Guidelines is also required prior to initiating participation in the program.
  - Signed Loan Placement and Loan Servicing Agreements.
  - Documentation of the Board of Director's approval of the financial institution's policy regarding the allocation percentage (the volume of risk-based loans).

- Board documentation of the financial institution's policy for the Allowance for Loan and Lease Loss.
- Completion of Implementation Training, as demonstrated by a signed Implementation Training Completion Certificate. This training program assists the financial institution to learn how to properly account for, track and assess its PMP loans and portfolio.
- Participation in the subprime lending market merely requires participation in the PMP program. Centrix provides all underwriting and servicing activities on behalf of the financial institution and assumes staffing and operating costs.
- The Centrix PMP is in place and has proven to be profitable for participating financial institutions. Returns in the 1999, 2000, and 2001 portfolios were 9-11%. (Actual return depends on the lending programs in which the financial institutions participated, term, and economic conditions and is calculated before servicing fees.)
- Participation in safe special finance activities can be almost immediate, with minimal planning or set-up by internal bank staff.
- The flexibility of the PMP allows financial institutions to make or decline individual loan packages as they are presented. This ensures that subprime lending activities continually remain within the institution's subprime lending goals and limits. The PMP Liquidity Control Process enables the financial institution to sell all or a portion of its PMP loans in order to recapture capital as well as receive an ongoing stream of interest income for the lives of the loans.
- Centrix has sophisticated, customized loan underwriting, servicing, collections and asset reallocation systems and technology in place and functioning efficiently. Centrix offers an online transaction processing system that further enhances efficiency of loan processing.
- Centrix systems provide continuous account monitoring. Participating financial institutions are provided with regular portfolio reports and have 24/7 online access to portfolio data.

Subprime Lending Program: "such lending should be conducted in a segregated program, portfolio, and/or portfolio segment."

- The financial institution is the lienholder on a distinct set of PMP loans. The financial institution's PMP portfolio is managed as a distinct, segregated portfolio.
- The PMP underwrites and services loan applications that have been found by the financial institution or auto dealer not to qualify for prime lending based on the credit characteristics of the individual borrowers. The PMP does not transfer prime loans in to the subprime lending category.
- Centrix provides regular portfolio reports to the financial institution. There is also 24/7 online access to portfolio reports.

Examination and Review: "the risks inherent in subprime lending programs call for frequent reviews...Portfolio level reviews and Transaction level testing."

- The financial institution is provided with comprehensive documentation of all aspects of the Centrix operations related to underwriting and servicing PMP loans and to transactions related to the institution's PMP portfolio management. This includes:
  - Due Diligence Binder
  - Regulatory Compliance Procedural Binder
  - Centrix Credit Guidelines and Lending Grids
  - Checklist to ensure that each loan package contains all necessary and accurate documentation
  - Acknowledgement Reports to track loans presented to and made by the institution
  - Semi-Monthly Transaction Statement that lists each transaction within the portfolio

- Aged Trial Balance that defines the total amount originated, current balance, delinquency buckets and write-off totals
- Payoff Report that describes loans paid off during the previous month
- Delinquency Report that profiles each delinquent loan and any associated repossession activities
- RIPL Report that describe the status of repossessed vehicles in the process of being liquidated
- The financial institution is provided with the actual loan package, which includes all documentation related to the transaction. The institution reviews the documentation and decides whether or not to make the loan. Therefore, the institution has the ability to perform transaction-level testing on each individual PMP loan to determine whether or not it complies with the Credit Guidelines and other risk management policies. The institution may decline the loan for any reason.
- Centrix performs underwriting and servicing activities on behalf of the financial institution. Participating financial institutions may audit Centrix's operations upon request.
- Centrix's Audit Department regularly performs a variety of audits to ensure consistent compliance with the Credit Guidelines.

Classification Guidelines: "examiners should not automatically classify or place loans in special mention merely because they are subprime...loans to borrowers that do not have the capacity to service their loans generally will be classified substandard...loans that are past due 90 days, or more, should be classified at least substandard..."

- PMP loans are considered in the special financing category (subprime or non-prime) based on the credit characteristics of the borrower.
- The Centrix loan servicing system identifies loans that are more than a day delinquent. Staff immediately implements techniques to obtain prompt payment.
- Repossession activities are considered in the event a loan is approximately 45 days delinquent.
- The GAP insurance policy covers the difference between the balance of the loan and the proceeds from the sale of the vehicle, which mitigates the majority of the risk of loss in the event of default. Therefore, the whole portfolio does not need to be classified as substandard, and financial institutions can take into consideration the GAP Insurance when determining the loss classification.

Staff Expertise: "Subprime lending requires specialized knowledge and skills that many financial institutions may not possess."

- Centrix's senior management team offers a total of over 25 years in subprime lending. Since Centrix specializes in this arena, staff members have extensive experience in handling the unique aspects of special finance lending.
- Centrix's human resource policy is to hire only senior management candidates with direct experience in the subprime lending industry. Other staff must have proven track records of success in the specific roles in which they will work. Centrix does not hire inexperienced candidates.
- Centrix provides comprehensive skills training to all new staff to ensure the necessary skill level.
- Centrix's existing staff levels can handle a dramatic increase in the number of PMP loans. However, strategies for duplicating existing staffing teams have been developed so Centrix can quickly and easily expand to handle additional loan production. Centrix has in-house recruiters to manage all hiring functions.
- Centrix has sales and service staff who are available as needed to assist member financial institutions to participate in the Centrix PMP.
- Centrix offers a comprehensive Due Diligence and Implementation training programs to assist the financial institution to understand all operational aspects related to the PMP, including how Centrix

conducts underwriting and servicing on behalf of the financial institution and how the financial institution accounts for PMP loans.

- The Centrix Information Center provides ongoing service to participating financial institutions and is available to resolve any issues the financial institution may encounter related to its participation in the PMP.
- The PMP is a turnkey program that allows banks to safely participate in the specific types of special finance auto loans that fit with their lending goals and criteria. They choose to participate on a loan-by-loan basis and are provided with all services related to underwriting and servicing the loan for fees that are related to the amount of the PMP loans that they made.
- All Centrix practices meet Federal guidelines and regulations, including Regulation Z and Regulation B.
- Centrix relies on a variety of criteria to evaluate the credit risks associated with a particular loan application. Centrix has formal guidelines that stipulate acceptable debt to income ratios, residency history, employment history, collateral value and auto characteristics that are necessary in order to consider acceptance. Centrix Underwriters review the credit report and consider the customer's stability, ability to pay, and credit history. Credit scoring is considered if available, but is never the sole evaluation factor. Centrix Verifiers ensure that Centrix has accurate income, employment, residence and insurance information upon which to make the credit decision.
- Centrix provides a complete loan package. Each loan has passed through a sophisticated loan underwriting process, which uses standardized techniques to evaluate credit risk and establish loan parameters. The financial institution is provided with comprehensive data with which to evaluate each loan package.
- Centrix uses a complex, automated system to track individual loan performance. Centrix also has well-documented, pro-active servicing and collections procedures for minimizing defaults and maximizing payments. The financial institution is provided with monthly reports and has 24/7 online access to loan data in order to evaluate performance against goals.
- Centrix has documented all its operating procedures, including underwriting, documentation, servicing, collections and asset reallocation, in its operating manuals.
- Centrix operations and policies are adapted to meet the specific regulations of each state.

Purchase Evaluation: "Institutions should not accept loans from originators that do not meet their underwriting criteria, and should regularly review loans offered to ensure that loans purchased continue to meet those criteria."

- Centrix works with the bank to define its target market profile and its performance objectives for each market segment. Centrix submits loan packages that meet the strict underwriting guidelines to which the financial institution has agreed.
- Centrix uses formal underwriting guidelines to evaluate each loan application prior to presenting the loan package to the financial institution. Centrix currently accepts approximately 35% of the loan applications it receives.
- The bank evaluates loan packages on a case-by-case basis to decide whether to make or decline them. There are no obligations regarding the number of PMP loans the institution must make; therefore, institution management retains full control over ensuring that their subprime loan portfolio meets their goals and criteria.
- Centrix provides monthly reports to assist management to evaluate whether loan performance continues to meet the institution's criteria. The institution may choose to discontinue participation at any time.
- Centrix provides training to assist the financial institution to assess the portfolio reports and ensure that their subprime lending activities remain in compliance with the institution's goals and limits.

- The financial institution is presented with complete, verified loan packages. The financial institution then decides whether or not to make the loan and become the lienholder. The institution does not purchase the loan.

Loan Administration Procedures: "loan administration procedures should provide for the diligent monitoring of loan performance and establish sound collection efforts"

- Centrix uses a sophisticated loan servicing system to track and integrate data regarding all aspects of loan servicing and collections. Centrix Resource Systems, a department of Centrix Financial, handles these functions.
- Centrix has designed, documented and implemented aggressive, pro-active servicing techniques that minimize defaults and maximize profitability. This includes sending a "welcome aboard letter" which provides full information on making payments, regular use of Pre-callers who contact new customers to provide information and reminders about initial payments, and acceptance of a wide variety of payment methods.
- Information on delinquent accounts is automatically provided to the collections staff by the loan servicing system. Centrix has formal written guidelines for its collections policies and procedures. The Collections Manager and Director of Asset Reallocation work closely to monitor loan performance and protect the value of the asset.
- The charge off rate of the PMP portfolio is essentially the same as that for an "A" rated portfolio.
- Centrix has strict procedures for approving and structuring cure programs such as changing payment due dates and account deferment. They are only instituted when there is evidence of the borrower's willingness and ability to repay. Loans are never re-written or renewed.

Loan Review and Monitoring: "institutions must perform an ongoing analysis of subprime loans...the review process should focus on whether performance meets expectations...(and) should ensure that models used to estimate credit losses or to set pricing allow for fluctuations in the economic cycle"

- Centrix offers member financial institutions 24/7 online access to data regarding loan performance as well as monthly reports and trial balances. This information can be provided on a loan-by-loan basis or on a portfolio basis. The data is formatted to assist the financial institution to evaluate whether performance meets expectations. The PMP portfolio has returned 9-11% since inception. (Actual return depends on the lending programs in which the financial institutions participated, term, and economic conditions and is calculated before servicing fees.)
- Because Centrix provides an up-front insurance coverage on a loan-by-loan basis with a GAP policy from an insurance company, the value of the asset is protected. Therefore, it is not impacted by fluctuations in the economic cycle.
- Since the costs associated with a subprime loan are fixed and the charge-off rate is essentially the same as with an "A" loan, the financial institution does not need to adjust its capital structure to adjust for the typical risk associated with a subprime loan.

Consumer Protection: "Higher fees and interest rates combined with compensation incentives can foster predatory pricing or discriminatory 'steering' of borrowers to subprime products"

- The costs of the Centrix PMP are tied to the amount of the loans made. There is a fixed rate participation fee related to Centrix's underwriting activities. Centrix provides servicing for a small percentage of the outstanding balance of the loan.

- There are no bonuses for producing subprime loans; therefore, the financial institution has no incentive to steer customers into subprime loans.
- Centrix underwriting policies and procedures comply with Regulation Z and Regulation B to ensure fair lending practices.
- Auto dealers identify and submit subprime loan applications. Centrix evaluates the applications according the strict, consistent underwriting guidelines that comply with fair lending regulations. The bank is not involved in these transactions until Centrix submits a completed loan package for it to review.

Predatory or Abusive Lending Practices: "Typically, predatory lending involves...making unaffordable loans based on the assets of the borrower rather than on the borrower's ability to repay an obligation, inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced..., or engaging in fraud or deception to conceal the true nature of the loan obligation, or ancillary products, from an unsuspecting or unsophisticated borrower."

- Credit decisions are based on the borrower's stability, willingness to repay, and ability to repay, as evidenced by the credit bureau report, verified income, employment and residence data, and debt-to-income and payment-to-income ratios. These ratios must be within certain limits in order to qualify for a PMP loan.
- PMP loan interests rates are typically below the rates charged through other lending programs. PMP loans may not be refinanced.
- All information regarding the loan obligation is provided upfront, through the purchase contract with the auto dealer and documentation from Centrix regarding loan payment. There are no ancillary products involved with a PMP loan.

Securitization and Sale: "securitization of subprime loans carries inherent risks...that are potentially greater than for securitizing prime loans. Accounting for the sale of subprime pools requires assumptions that can be difficult to quantify, and erroneous assumptions could lead to the significant overstatement of an institution's assets...(the institution) should develop a contingency plan that addresses back-up purchasers of the securities or the servicing functions, alternate funding sources, and measures for raising additional capital"

- By securitizing PMP loans individually, up-front through an insurance policy from a national insurance company, Centrix protects the value of the asset. Assumptions related to the future value of the asset are eliminated since Centrix is not relying on future sale of a portfolio.
- Centrix PMP portfolios, when sold, comply with all FAS 125 regulations.
- Centrix relies on a national insurance company, which is in the business of insuring against risk of loss. It does not rely on the equity market, which is affected by market and economic fluctuations and could exit the subprime lending arena in market downturns.
- Special finance lending is Centrix Financial's primary business. It has designed its PMP product to minimize the effects of economic fluctuations, so it is not at risk of leaving the subprime-lending arena should the market have a downturn.
- Centrix has an agreement with A-rated insurance companies to provide the GAP insurance policy, which guarantees PMP loans. Every PMP loan is automatically covered by the GAP policy, which is non-cancelable as long as Centrix is servicing the loan.
- The insurance coverage on each PMP loan makes the charge-off rate of a subprime PMP loan virtually the same as that associated with an "A" loan.

- The Centrix Liquidity Control Process enables the financial institution to recapture its principal through the sale of all or part of its portfolio and to receive an ongoing strip of interest income for the lives of the loans sold.

Reevaluation: "institutions should periodically evaluate whether the subprime lending program has met profitability, risk, and performance goals"

- Centrix operating systems continually track portfolio performance and individual loan performance. Regular reports are provided to bank management to assist them to evaluate whether the program has met their goals. The financial institution also has 24/7 access to online portfolio reports.
- Financial institutions can modify their lending criteria, raise or lower their allocation level, or refrain from participating in the PMP program at any time.
- Centrix regularly evaluates its loan underwriting, servicing and collections performance and implements procedures to further minimize risk.
- The financial institution may sell all or a portion of its PMP portfolio in order to reduce the amount of capital invested in the PMP. In addition to recapturing its capital, the financial institution also continues to receive a stream of interest income for the lives of the loans sold.

## CONCLUSION

The Centrix PMP is specifically designed to provide financial institutions with a safe, profitable, and turnkey method to participate in the special finance auto loan market. When a financial institution participates in the Centrix PMP, it is using a program that:

- Meets the recommendations on subprime lending identified by the FDIC in its "Interagency Guidance on Subprime Lending" letter,
- Minimizes bank investment of time, money and staff to create and manage internal subprime lending functions, and
- Provides insurance coverage that makes the charge-off rate associated with a subprime loan virtually the same as that associated with an "A" loan.

Centrix Financial welcomes the participation of additional financial institutions and has the systems and staff in place to immediately service additional loan volume. Centrix executives are available to assist individual banks to evaluate the program, define specific subprime goals and limits, and initiate participation in the program. For additional information on Centrix or the PMP program, please contact William Speakman at 303-224-9001 x 1263 or visit [www.CentrixFinancial.com](http://www.CentrixFinancial.com).

*To Joe CROW  
For Your INFO.*

*Exhibit E*

## WK Capital Advisors, Inc.

### Memorandum

TO	COPIES TO
Chris Olson, Sr. VP Bank of Alameda	
FROM	
Robert E. Sutton	
SUBJECT	DATE
Policy Update	December 15, 1998

I am hopeful you are feeling much better after your operation and that you have a very Merry Christmas and we look forward to a very prosperous New Year working with you and the Bank. As I mentioned the last time we talked, I have had a meeting with Lyndon Insurance Company to make some fairly significant adjustments in the policy that would benefit the Bank. They are as follows:

1. We will be eliminating the \$5,000 top end limit on the policy. That was a significant breakthrough.  
*10/15/98*
2. As you know, the policy only covered that amount which was sold or Kelly Blue Book wholesale, whichever is higher. We have been able to restructure the policy in such a way that now it will cover an amount up to 10%, not to exceed \$2,000 should it sell below Blue Book. This happens on occasion and I think this makes the policy virtually "bullet proof." Also, we had to adjust the pricing to the dealers in order to be more competitive in the marketplace. Originally it was 7% discount to the dealer plus \$295. We have now restructured that to 5% or \$500, whichever is greater, with no \$295 paid by the dealer. But because of that and the adjustments in the policy, we have had to increase the discount to the Bank from 3% to 4%. Therefore, if ARP stays at 18.9% there would be an additional 1% discount cost to the Bank net of 14.9% vs. 15.9%. However, considering the benefits the Bank would enjoy with regard to additional security as well as a more competitive product to the dealers, we believe this 1% will be more than made up for through volume. And as you also know, competition in this arena is pricing between 20% and 21% APR, so we're still highly competitive.

Once again, I want to thank you very much for the help you've given us and Bill over the past many months and we look forward to a long and profitable relationship.

## Centrix Portfolio Statistics and Financials

As of 12/31/02

	1998	1999	2000	2001	2002	TOTAL
<b><u>Portfolio Growth</u></b>						
Total Loan Count <sup>1</sup>	25	1,929	5,465	7,510	20,466	35,395
Total Loan Amount <sup>1</sup>	\$270,962	\$25,881,150	\$82,217,050	\$118,378,673	\$325,908,148	\$552,655,983
<b><u>Loan Statistics</u></b>						
Average Loan Amount	10,838	13,417	15,044	15,763	15,924	15,614
Average APR <sup>2</sup>	17.48%	19.80%	17.87%	17.77%	18.13%	18.06%
Average Term <sup>2</sup>	52.04	58.23	61.75	62.48	65.02	65.42
Average Payments Left <sup>3</sup>	17.12	24.27	37.03	47.67	61.65	56.65
<b><u>Pay-offs</u></b>						
Number of Paid-off Loans	16	781	947	981	390	3,115
Paid-off Number as % of Total	64.00%	40.49%	17.33%	13.06%	1.91%	8.80%
<b><u>Insurance</u></b>						
Insurance Premiums <sup>1</sup>	\$18,169	\$2,014,400	\$5,941,572	\$8,238,204	\$27,987,164	\$44,199,510
Number of Claims Paid <sup>1</sup>	1	482	891	733	164	2,271
Total Claims Paid to Date <sup>1</sup>	\$5,134	\$2,523,240	\$5,081,899	\$4,317,628	\$875,007	\$12,802,910
Claims to Premiums % <sup>1</sup>	28%	125%	86%	52%	3%	29%
<b><u>Risk Metrics</u></b>						
Total Loan Balance <sup>1</sup>	\$25,957	\$5,314,325	\$34,098,445	\$76,026,227	\$304,678,031	\$420,142,986
RIPL	\$0	\$198,622	\$1,338,796	\$3,289,933	\$6,414,668	\$11,242,020
RIPL % of Loan Balance	0.00%	3.74%	3.93%	4.33%	2.11%	2.68%
<b>Cumulative Loss %<sup>4</sup></b>	<b>6.59%</b>	<b>12.57%</b>	<b>8.38%</b>	<b>4.89%</b>	<b>0.34%</b>	<b>3.09%</b>
Charge-Off Balance	\$12,728	\$729,117	\$1,807,341	\$1,472,858	\$245,983	\$4,268,027
<b>Cumulative Charge-Off %<sup>5</sup></b>	<b>4.70%</b>	<b>2.82%</b>	<b>2.20%</b>	<b>1.24%</b>	<b>0.08%</b>	<b>0.77%</b>
Annualized Charge-Off % <sup>6</sup>	1.25%	0.83%	0.89%	0.81%	0.16%	0.68%

<sup>1</sup> Based on Loan Booking Dates (Not Contract Dates)

<sup>2</sup> Weighted Average based on Original Loan Amount

<sup>3</sup> Weighted Average based on Current Balance

<sup>4</sup> Total Loss (Before Claim) / Original Loan Amount

<sup>5</sup> Total Charge-Off / Original Loan Amount

<sup>6</sup> Annualization Method: cumulative charge-off % / average aging x 12

02/20/2003 THU 9:43 FAX

Exhibit G

4002/012

719 473 7459  
04/10/03 15:02 MOUNTAIN BELL C U → 13032240628

NO. 100 D01

*Mountain Bell Credit Union*

Page: 1 of 3

Date: 4/10/2003

# FAX MESSAGE

Fax Number: 303-224-0628

For the Attention of: Bob Sutton

Company: Centrix Financial

From: Gary Atkins

Attached please find the minutes for the meeting that took place on April 6th. Jim has been unavailable to review the minutes, so please consider this a rough copy until his review.

## CENTRIX MEETING MINUTES AT MOUNTAIN BELL CREDIT UNION

The meeting took place on April 6, 2000, at 11:00 a.m. at Mountain Bell Credit Union. Gary Atkins, Jim Gillespie, Bob Sutton, Howard Klemmer, and Cheri Shelton were present for the meeting.

### OPERATIONS/PROCEDURE MANUAL

Centrix agreed that they will put together an operations/procedure manual that will explain the subprime program to its new and old clients.

The Accounting Procedures would also become a part of the operations manual for clients as well as the reports associated with these procedures. This manual will also detail the vesting schedule.

### PAYOUTS

It was decided that the items to be included with the payoff information will consist of who is involved, how vehicle was paid off, and when it was paid off.

### DELINQUENCY PROCEDURES - 60 DAYS

The delinquency procedures on loans was discussed and it was agreed that the following steps will be taken as a program Beta test, but that they will only apply for loans that Mountain Bell Credit Union has funded.

Mountain Bell Credit Union will become a "Beta Test Site" for these procedures. This will last from six months to one year with a commencement date of June 30, 2000 (end of second quarter). The management of Mountain Bell Credit Union and Centrix Financial will cooperatively work to implement this process. In order for Centrix to buy back the loans from Mountain Bell Credit Union once they become sixty days delinquent they will buy back loans from Mountain Bell when the credit union's ratio of delinquent Centrix loans reaches 1.5% of the outstanding Centrix loan balances. Mountain Bell will wait to purchase the loans back from Centrix once they become current. Centrix will invoice the credit union for the purchase price.

### TITLES

Howard agreed that Centrix will send copies of the titles immediately, whether they are correct or not with a memo of what the problem is and what is being done to get the title corrected. When the title is corrected Mountain Bell Credit Union will receive a corrected copy.

### INSURANCE

Bob will be obtaining a confirmation letter from Chairman Anderson of the insurance company stating that Centrix has the authority to bind insurance on behalf of Lyndon. Mountain Bell Credit Union will receive a copy of the letter once it becomes available. Howard will also start notifying the credit union when he submits his report to Lyndon, so that credit union knows that the insurance coverage is coming. Howard said that he submits his report once a month and then allows the insurance company thirty days to provide coverage. Thus it might take up to sixty days to receive notification of coverage.

04/10/00 11:45:02

MOUNTAIN BELL C/U → 13632248628

NO. 100

003

**FIRST PAYMENT DEFAULTS**

This item was also discussed in brief. The understanding was that when this occurs on a loan the credit union will be informed of the event, the time of the event, and the outcome of the incident. Centrix agreed to call the credit union once a check has been sent. If a loan is a first payment default, Bob agreed that on the forty-fifth day of delinquency Mountain Bell Credit Union will be paid on that day for that loan.

**REPORTING TO CREDIT REPORTING AGENCIES**

Centrix is now reporting the credit information to TransUnion (one of the credit reporting agencies).

**NEW MEMBERSHIP CARDS**

Gary and Jim stated that the credit union must have the membership cards with the original signature of the member. Bob did not completely understand the importance of the membership cards and once explained to him he agreed to immediately send the cards to Mountain Bell. There will be no more funding by Mountain Bell until the original signature on the membership card is received.

**DELINQUENCY NOTES**

Currently the credit union is not receiving the collection notes on the repossession that are taking place. Howard explained that the notes are not available to us at this time. It will take approximately 60 days to fix the system so that the notes are available to us. To accommodate for not being able to receive this service Centrix is e-mailing the notes to the credit union on a monthly basis. It was agreed that the credit union needs them more frequently and Centrix agreed to provide the notes every two weeks.


**CENTRIX**  
 FINANCIAL

5690 DTC Blvd. Suite 260  
 Englewood, CO 80112  
 Tel. 303-224-3001 - Fax 303-224-0628

## MEMORANDUM

<b>to</b>	Gary Atkins Mountain Bell Credit Union	<b>COPIES</b>	Sue Brayman Carrol Beach Howard Klemmer Michael Lammers Cecelia Pelino Moe Mason Jeff Tarski
<b>FROM</b>	Robert E. Sutton	<b>DATE</b>	July 13, 2001
<b>SUBJECT:</b> 60 Day Delinquent Accounts			

Following is a description of the arrangements that were established with Mountain Bell Credit Union and in effect from June, 2000 through June, 2001. We appreciate Mountain Bell's participation in this Beta Test of methods to minimize credit union losses during the period when the collateral vehicle of a delinquent loan is being repossessed and sold. These loss protection processes were designed to be implemented in the event that it took more than 60 days to repossess and sell the vehicle.

As you know, a unique and exclusive feature of the Centrix Portfolio Management Program (PMP) is the Guaranteed Asset Protection (GAP) default insurance that is provided for each and every PMP loan by a national, A-rated insurance company. This default policy includes a guarantee of up to 90 days of payments during the repossession period.

The specific authority for designing and implementing these arrangements is based on the following:

- Section II.E. of the GAP insurance policy provides: *The insured's interest in the collateral means the unpaid balance owed to the named insured as of the date of default, including payments not more than 90 days past due; less any unearned finance charges, unearned insurance premiums, late charges or other charges computed on a simple interest of actuarial basis.* Thus, the policy guarantees up to 3 monthly payments to be paid by the insurance. These 90 days worth of payments cover delinquent payments that were due during the repossession period.

- According to the Portfolio Servicing Agreement that the credit union signs, Centrix has the authority to collect payments, determine delinquency, identify vehicles for repossession, and file and collect the GAP insurance payment on behalf of the credit union. Centrix also remits appropriate funds to the credit union. It also can extend the loan by 2 payments thus providing 2 months extension under certain circumstances.

Specifically, the Beta Test included these two aspects:

1. Extension of a loan by one payment and;
2. The redemption of loans that were in default for over 60 days.

In the first case, by allowing the borrower to skip one payment and adding that payment on to the back end of the loan period, the borrower had an increased chance of keeping the loan current. Of course, if the loan was not kept current after that point, the 60 day process could be implemented at the appropriate time. During the first three months when the borrower is in default, the loan is not actually in "financial" default because the insurance policy guarantees "up to 90 days of payments." Should the loan be in default longer than that, Centrix could implement the option of redeeming the loan from the credit union.

The 60 day process was designed to take advantage of the provisions in the insurance policy in order to assist the credit union to minimize losses during the repossession period. It was specifically intended for use when the claim was expected to take an extended period of time to settle, for example in the case of a skip. However, based on feedback from Mountain Bell and from our own assessment of the Beta Test, it is clear that the two procedures that were tested were not the optimal method to achieve the goal.

Therefore, Centrix has designed a "90 Day Provision" that also complies with all aspects of the GAP insurance policy and the Portfolio Servicing Agreement. Enclosed is a copy of the new 90 Day Provision Procedure and a Position Paper for your review. As you will see, the new procedure enables Centrix, in the event that it appears that repossession and sale of a vehicle will take more than 60 days, to elect to advance up to 90 days of payments. Centrix does so because of the financial guarantee provided by the insurance policy on each loan. The borrower remains delinquent because the he/she has not made payments, so Centrix has the authority to repossess and sell the vehicle. The credit union accounts for payments advanced by Centrix in the same manner as for any other loan payment received. The credit union can identify and track delinquent loans for which advance payments are being made on the Semi-Monthly Transaction Statement. The loans are identified on the Statement with the code GAPAD. Once Centrix has received the proceeds from the GAP claim and the sale of the vehicle, it is reimbursed the full amount of the payments it advanced and any costs per the Portfolio Servicing Agreement, then remits the net balance to the credit union.

This 90 Day Provision has been reviewed with our consultants and attorneys, one of whom is Charles Felker, formerly of the NCUA and currently providing educational seminars to the NCUA. We also have evaluated how credit unions handle delinquent consumer loans when an account receives an extension until the borrower's disability policy begins to make payments and found this procedure to be consistent with our Payment Advance Procedure.

We appreciate Mountain Bell's past assistance in designing and testing new procedures. We look forward to continuing to work together to enhance our PMP program. If there is any additional information you require, please let me know.

## MOUNTAIN BELL

6/30/00

Line Item	Jun-98	Dec-98	Jun-99	Dec-99	Jun-00	06/00 Peer	+/- Peer
<b>Capital Adequacy:</b>							
*Capital/Total Assets	10.81	10.69	10.37	11.04	11.43	12.93	-1.50
*Net Capital/Total Assets	10.22	10.19	10.07	10.67	10.93	12.29	-1.36
Total Delinquent Loans/Capital	5.94	7.14	3.24	2.35	6.59	5.45	1.10
Solvency Evaluation (Estimated)	111.67	111.44	111.38	112.10	113.22	114.22	-1.00
Classified Assets (Estimated)/Capital	5.45	4.72	2.91	3.35	4.35	5.27	-0.92
<b>Asset Quality:</b>							
*Delinquent Loans/Total Loans	0.80	1.10	0.51	0.34	0.67	0.97	-0.10
*Net Charge-offs/Average Loans	0.87	0.46	1.23	0.76	0.52	0.38	-3.08
Fair (Market) Value/Book Value (FIM Invest)	0.00	0.00	0.00	0.00	0.00	99.02	-99.02
Accum Unreal G/L on AFS/Cost of AFS	0.00	0.00	0.00	0.00	0.00	-0.82	0.82
Delinquent Loans/Assets	0.64	0.76	0.34	0.26	0.73	0.64	0.11
<b>Earnings:</b>							
*Return On Average Assets	0.71	0.75	0.06	0.24	1.39	0.91	-0.48
Gross Income/Average Assets	8.21	8.05	7.41	7.83	8.47	8.27	0.20
Cost of Funds/Average Assets	3.24	3.29	3.13	3.06	2.88	3.20	-0.32
Net Margin/Average Assets	4.97	4.76	4.28	4.77	5.60	5.07	0.53
Operating Expenses/Average Assets	3.86	3.77	3.80	3.82	3.75	3.89	-0.14
Provision for Loan Losses/Average Assets	0.40	0.28	0.42	0.41	0.55	0.28	0.27
Net Interest Margin/Average Assets	4.21	4.02	3.69	4.13	4.86	4.29	0.61
Operating Expenses/Gross Income	47.05	46.90	51.29	48.85	44.28	46.34	-2.06
Fixed Assets & OREOS/Total Assets	1.10	0.97	0.89	0.77	0.68	2.13	-1.45
Net Operating Expenses/Average Assets	3.32	3.26	3.42	3.41	3.32	3.26	0.06
<b>Asset Liability Management:</b>							
Net Long-Term Assets/Total Assets	21.37	12.91	13.94	15.23	13.98	18.49	-4.51
Regular Shares/Total Shares and Borrowings	29.33	27.42	27.43	26.74	25.14	49.43	-24.29
Total Loans/Total Shares	91.87	75.20	73.75	86.81	104.40	77.23	27.17
Total Loans/Total Assets	80.50	66.73	65.24	76.53	86.32	66.85	19.47
Cash + Short-Term Investments/Assets	16.36	28.06	23.95	15.63	9.78	19.95	-10.17
Total Shares,Deposits and Borrowings/Curing Assets	90.80	91.30	91.49	96.22	93.00	96.87	-1.87
Borrowings/Total Shares and Capital	0.00	0.00	0.00	0.00	5.14	0.45	4.69
Estimated Loan Maturity in Mos.	27.32	21.64	27.88	30.51	37.87	26.59	11.28
<b>Productivity:</b>							
Members/Potential Members	50.27	49.72	49.81	49.48	51.60	45.20	6.40
Borrowers/Members	43.88	41.58	38.61	39.65	40.78	47.08	-0.30
Members/Full-Time Employees	427.79	405.84	375.89	403.92	421.22	470.15	-48.93
Average Shares per Member (\$)	3,659.69	3,915.59	3,939.88	3,914.99	3,664.28	4,172.77	-508.49
Average Loan Balance (\$)	7,662.55	7,082.31	7,525.87	8,570.81	9,379.71	6,929.12	2,450.59
Salary and Benefits/Full-Time Employees (\$)	32,890.64	32,096.04	32,694.04	35,870.12	38,700.33	35,889.85	2,810.48
<b>Other Ratios:</b>							
Market (Share) Growth	11.01	11.63	1.60	-0.49	-4.79	5.55	-10.34
Capital Growth	6.71	6.37	-3.13	3.82	15.48	7.87	7.61
Net Capital Growth - Asset Growth	-5.67	-3.77	-1.61	5.16	5.09	1.80	3.29
Loan Growth	11.21	-8.52	-2.28	14.87	-34.77	10.34	24.43
Asset Growth	12.69	11.13	2.22	0.15	8.16	6.09	2.07
Investment Growth	8.78	113.22	8.46	-49.05	-120.02	6.59	-126.61

\*ONE OF THE 5 KEY CAMEL RATIOS

**IN THE**  
**UNITED STATES PATENT AND TRADEMARK OFFICE**

Inventor(s): Robert E. Sutton

Examiner:

Application No.: 09/896,705

Group Art Unit: 2161

Filing Date: June 29, 2001

Title: METHOD FOR PROVIDING FINANCIAL AND RISK MANAGEMENT

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**Affidavit of Roland Anderson**  
**Under 37 CFR 1.132 Relating to Public Use, On Sale and Experimental Use**

Assistant Commissioner for Patents  
Washington, D.C. 20231

Dear Sir:

I, Roland Anderson, hereby depose and state:

1. That I am currently an employee of Centrix Financial, LLC;
2. That during the 1998 and 1999 time period, I was President of Lyndon Property Insurance Company;
3. That under my direction, Lyndon Property Insurance Company entered into an Agency Agreement, attached hereto as Exhibit A with Centrix Financial, LLC regarding an exclusive relationship between the parties for providing default insurance to financial institutions as a result of default by credit impaired borrowers on vehicle loans;
4. That the Agency Agreement of Exhibit A has an effective date of August 1, 1998, and was effective for two years, terminating on July 31, 2000, unless both parties agreed to renew at that time.
5. That Section 3(b) of the Agency Agreement indicates that the first 12-months following the effective date of August 1, 1998, the premiums processed by Lyndon shall be no more than \$3,000,000;
6. That the Agency Agreement was authorized by me to be executed by E. Perry Kupferman, Sr. VP, on behalf of Lyndon Property Insurance Company and by

Robert E. Sutton on behalf of Centrix Financial, LLC and the inventor of the above-identified patent application;

7. That the \$3,000,000 cap on premiums for the first 12 months was imposed because the process of using an up-front, loan-by-loan GAP insurance policy to cover defaults by credit impaired borrowers for vehicle loans was untested and that sufficient testing needed to be performed on this process;
8. That the primary purpose of entering into the Agency Agreement and placing a cap on the premiums for the first 12 months, i.e., until August 1, 1999, was to test the process of claim 22 to determine the feasibility of such a process;
9. That I expected Lyndon Property Insurance Company to only make a minor profit, if any, on the policies that were sold for the first 12 months of the Agency Agreement;
10. That no profit was made on the policies issued during the first 12 months;
11. That any profit motive that I had, as President of Lyndon Property Insurance Company, in issuing policies during the first 12 months of operation, was incidental to the primary motivation for entering into the Agency Agreement, which was to test the process of claim 22;
12. That I considered the process of issuing default insurance to insure financial institutions against default by credit impaired borrowers on vehicle loans on a loan-by-loan basis to be a potentially viable business opportunity that prompted me to enter into the Agency Agreement and proceed with the testing of the process of claim 22 to determine if the process was feasible;
13. That I was advised by others in Lyndon Property Insurance Company not to enter into such agreement because of the potential loss due to the uncertain nature of the risk;
14. That the reason for entering into the Agreement and issuing the policies was to assess the risk and to establish a relationship with Centrix Financial, LLC for a long term profitable relationship after the testing period;
15. That Lyndon Property Insurance Company kept precise data that was periodically evaluated to assess the risk of such policies;
16. That I was in frequent communication with Robert E. Sutton of Centrix Financial, LLC to discuss risk factors and to evaluate the feasibility of the process of issuing default insurance to insure financial institutions against defaults by credit impaired borrowers on vehicle loans during the first year of the Agency Agreement;

17. That modifications were made to the default insurance policies during the first year of the Agency Agreement, i.e., until August 1, 1999, as a result of the evaluation and risk assessment of the default insurance policies;
18. That a policy offering a separate endorsement to financial institutions was initiated during the first 12 months of the Agency Agreement to provide further coverage to financial institutions;
19. That the endorsement was later added as a standard part of the default insurance policy beginning with loans booked in January, 1999;
20. That the only effective way of testing the process of issuing default insurance to financial institutions to insure against defaults by credit impaired borrowers on vehicle loans on a loan-by-loan basis was to actually engage in issuance of such policies and to collect data to assess risk and return so as to determine if such a process was even feasible;
21. That the Agency Agreement entered into between Lyndon Property Insurance Company and Centrix Financial, LLC was conditional in nature in that it allowed Lyndon Property Insurance Company to cancel the Agreement if the premiums exceeded \$3,000,000 in the first year;
22. That Centrix Financial, LLC provided Lyndon Property Insurance Company with monthly default statements and filed monthly claim statements with Lyndon Property Insurance Company.

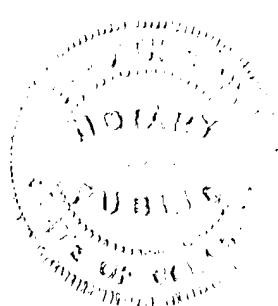
That the above facts, to the best of my knowledge, are true.

Roland Anderson  
Roland Anderson

STATE OF COLORADO )  
 ) ss.  
COUNTY OF DENVER )

Subscribed and sworn before me this 9<sup>th</sup> day of April, 2003, by Roland Anderson.

(SEAL)



**Notary Public**  
My commission expires: My Commission Expires  
March 1, 2006

AGREEMENT

THIS AGREEMENT, effective the 1st day of August, 1998, by and between Lyndon Property Insurance Company, 545 Maryville Centre Drive, St. Louis, Missouri 63141-5815 ("Lyndon") and Centrix Financial, Inc., 7300 E. Union Avenue, Suite 1100, Denver, Colorado 80217 ("General Agent").

IN CONSIDERATION of the mutual covenants contained herein the parties agree as follows:

1. TERM

This Agreement shall continue for two (2) years from the Effective Date of August 1, 1998. It shall automatically renew annually thereafter, unless terminated hereunder.

2. AUTHORITY

(A) General Agent is authorized to:

- (1) market Lyndon's Lender's Indemnity Insurance Program directly to financial institutions ("Accounts");
- (2) issue and deliver policies, but only after compliance with the terms, conditions and provisions of the policies and any delivery requirements requested by Lyndon;
- (3) underwrite loans to assure compliance with defined underwriting requirements; and
- (4) collect, in trust, and remit promptly to Lyndon the premiums for the issued policies.

(B) General Agent IS NOT authorized to:

- (1) make a contract for Lyndon;
- (2) change, alter or amend any contract made by Lyndon;
- (3) waive forfeitures, or the terms, conditions or provisions of any policy issued by Lyndon;
- (4) waive any required answer to any question in an application for a policy;
- (5) adjust, compromise or settle claims; or
- (6) bind reinsurance on behalf of Lyndon.

3. DUTIES AND RESPONSIBILITIES

(1) Lyndon appoints General Agent as its exclusive representative in the states set forth in Exhibit A ("States") attached hereto for the purpose of soliciting and procuring applications for Lyndon's Lender's Indemnity Insurance Program ("Indemnity Insurance") attached hereto as Exhibit B. This exclusive appointment shall be effective for two years from the Effective Date of this Agreement. General Agent shall solicit, underwrite loans to assure compliance with underwriting requirements, collect premiums for, and deliver all such Indemnity Insurance policies subject to the terms of this Agreement. Lyndon shall not appoint another general agent in the States to solicit Indemnity Insurance, and General Agent shall not market in the States another company's lender's indemnity insurance product during the two-year exclusive appointment period.

(2) After the first twelve months following the Effective Date of this Agreement, the annual net written premiums procured by Lyndon for the Indemnity Insurance business produced by General Agent shall not be less than \$500,000 and shall not be more than \$3,000,000.

In the event the annual net written premiums fall below the minimum amount or exceed the maximum amount set forth in the preceding paragraph, then the mutual exclusivity provisions of Section 3 (A) shall be null and void and each party hereto shall be free to contract with others for the marketing of Indemnity Insurance, or the Agreement may be terminated pursuant to Section 10.

(C) General Agent agreed to sell Lyndon's Indemnity Insurance and issue and deliver policies subject to the terms of this Agreement, all rules of Lyndon, the terms of this Agreement, the provisions of Lyndon's policies, and all applicable laws.

(D) Neither this Agreement nor any Lyndon policy, contract or provision thereof, may be altered or waived by the General Agent except as may be specifically agreed upon in writing by an officer of Lyndon.

(E) All underwriting of loans and underwriting standards pertaining to Lyndon's policies shall conform to such standards set forth by Lyndon and such adjustments as may be made by Lyndon to such standards, which shall be promptly delivered in writing to General Agent. General Agent shall maintain files on all issued and declined business.

(F) General Agent and each of its employees who solicit insurance shall obtain and maintain all licenses required by all federal and state laws in every state in which the General Agent is authorized to act pursuant to this Agreement for the entire duration of this Agreement. General Agent and its employees shall have no authority to act as agents for Lyndon in soliciting, countersigning or delivering policies unless properly licensed as agents under applicable state and federal laws. General Agent shall cooperate with Lyndon in properly licensing all such employees and shall timely advise Lyndon of the need for any licensure so they may be timely obtained.

(G) General Agent shall monitor the Account's compliance with their premium remittance and other contractual requirements with Lyndon and compliance with the applicable federal and state insurance laws and regulations. General Agent shall immediately notify Lyndon of any evidence of noncompliance. Upon determination that premiums are past due from an Account, General Agent shall immediately contact the Account, determine the reason for the delinquency and demand full payment within seventy-two (72) hours.

(H) The adjudication of claims is the responsibility of Lyndon. General Agent shall investigate all claims immediately upon receiving notice of such claim and submit all information on the claim to Lyndon. General Agent shall have no authority to make any settlement or agreement regarding claims and is not authorized to change, modify or waive any of the terms or provisions of any Indemnity Insurance policy issued by Lyndon.

(I) General Agent is not authorized to incur any indebtedness or liability on behalf of Lyndon and shall not institute, defend or otherwise purport to act in the name of Lyndon in any legal proceedings. General Agent shall not publish any advertisements about Lyndon or its insurance products without prior written approval from an officer of Lyndon.

(J) General Agent shall prepare any itemized monthly statements of accounts or any other reports as requested by Lyndon.

(K) General Agent shall not place into use or distribute to any other persons or entities affiliated with General Agent, or knowingly permit such affiliated persons or entities to use any advertising or sales materials describing Lyndon's policies or other insurance products by name or by reasonable identification, whether or not covered by this Agreement or use the name of Lyndon or any of its affiliates without the prior written consent of Lyndon.

#### 4. RIGHT OF INSPECTION

General Agent will keep full and true records of all business transacted by General Agent on behalf of Lyndon. Lyndon shall have the right at its own expense and during normal business hours to inspect, copy and audit all the books and records relating to transactions hereunder at any office of General Agent or the office of any Account having Indemnity Insurance in force with Lyndon. Upon demand by Lyndon, General Agent will provide to Lyndon, within ten (10) business

days from the date of the demand, a full and detailed statement and accounting in such form as Lyndon may require, relating to any business transacted by General Agent which is subject to this Agreement, including but not limited to an accounting of all money received by General Agent from any business which is subject to this Agreement.

#### 5. RECEIPT AND REMITTANCE OF FUNDS

General Agent shall collect all premiums and any applicable state or local premium taxes. All funds received by General Agent shall be in a fiduciary capacity and as an agent of Lyndon. All such funds shall be treated as property held in trust for the sole benefit and use of Lyndon and held separate from the other funds of General Agent. General Agent shall be responsible for the accurate accounting and immediate remittance to Lyndon of all such funds. If legal action is required to collect any amounts due Lyndon from General Agent, General Agent shall pay all reasonable costs of collection, including reasonable attorney's fees.

General Agent agrees to remit to Lyndon, by the 15th day of the month, all business with an effective date in the preceding month, including: (1) all net premiums due thereon (net premiums shall be defined as gross premiums minus authorized refunds) minus General Agent's compensation set forth in Section 6; and (2) monthly reports and other information as required by Lyndon.

#### 6. COMPENSATION

Lyndon shall pay General Agent twelve and one-half percent (12½%) of net premiums (defined as gross premium minus authorized refunds) as compensation on all direct Indemnity Insurance sold by General Agent.

General Agent will also be paid a profit sharing commission on business in accordance with the Contingent Commission Addendum attached to and incorporated in this Agreement.

Lyndon may, at any time, offset against monies due to General Agent any debts due from General Agent to Lyndon, or any monies paid or liabilities incurred by Lyndon as a result of acts or omissions of General Agent, its writing agents, sub-agents or employees.

#### 7. REFUNDS OF UNEARNED PREMIUM

If any premiums are required to be returned to insured for any reason, General Agent shall promptly make or credit to the insured a full refund of the unearned premiums, including unearned commission, in accordance with the applicable refund formula as required by the state in connection with the policies.

Lyndon and General Agent, and any other party that received a portion of the premiums, are responsible for that portion of the refund equal to the percentage of premiums respectively received.

The obligations of Lyndon and General Agent, and General Agent's representatives under the terms of this Section shall survive the termination of this Agreement and shall be in effect until such time as no further refunds are due on the Indemnity Insurance administered hereunder.

#### 8. INDEPENDENT CONTRACTOR

The relationship between the parties to this Agreement is that of independent contractors and not employer-employee or master-servant.

#### 9. ASSIGNMENT

Neither this Agreement nor any benefits accruing hereunder shall be assigned in whole or in part without prior written consent of Lyndon. This limitation includes absolute and collateral assignments.

10. TERMINATION

After the initial two-year term of this Agreement, either party may terminate this Agreement at any time, for any reason or for no reason, upon one hundred eighty (180) days written notice to the other party, or upon ninety (90) days written notice to the other party if the loss ratio exceeds sixty percent (60%) for the Indemnity Insurance business.

During the initial two-year term of this Agreement and thereafter Lyndon may terminate this Agreement immediately upon the occurrence of any of the following:

- a. General Agent misappropriates funds or violates criminal or civil laws;
- b. General Agent files a voluntary petition in bankruptcy or for reorganization under the bankruptcy laws, makes any assignment of his property for the benefit of creditors, consents to the appointment of any receiver or trustee, becomes insolvent, or is subject to the entry of any order pursuant to the bankruptcy laws approving any involuntary petition in bankruptcy against General Agent;
- c. Any transfer of 25% or more of the ownership of General Agent without the prior written consent of Lyndon;
- d. Lyndon reasonably concludes that ~~General Agent has committed a dishonest act under this Agreement;~~
- e. The breach of any provision of this Agreement, including but not limited to, the failure to remit any monies due or belonging to Lyndon as required by the terms of this Agreement;
- f. The annual net written premiums processed by Lyndon for the Indemnity Insurance business produced by General Agent is less than \$500,000 or is more than \$3,000,000.

Pursuant to the terms of the policy or agreement, Lyndon shall have the option to terminate any Indemnity Insurance policy or other agreement that it determines to be unsatisfactory. If the loss ratio for the Indemnity Insurance business of an Account exceeds fifty-two and one-half percent (52 1/2%), Lyndon shall have the option to terminate the Indemnity Insurance policy or other agreement with said Account.

11. WAIVER

Lyndon's failure to insist upon strict compliance of its rules or provisions of this Agreement shall not constitute a waiver of such rules or provisions, which shall continue in full force and effect.

12. BOND OF INDEMNITY

General Agent will furnish Lyndon, upon request, with a satisfactory bond of indemnity to guaranty the faithful performance of all duties, obligations and undertakings created by or arising out of this Agreement.

13. ARBITRATION

- (A) In the event any dispute or difference of opinion with respect to this Agreement is unresolved after forty-five (45) days, it is hereby mutually agreed that such dispute or difference of opinion shall be submitted to arbitration in accordance with the rules of the American Arbitration Association, and subject to the applicable provisions of the statutes of the state of Missouri. One arbitrator shall be chosen by General Agent, the other by Lyndon, and an umpire shall be chosen by the two arbitrators thus selected before they enter upon arbitration, all of whom shall be active or retired disinterested executive officers of insurance companies

other than the parties, their subsidiaries or affiliates. In the event that either party should fail to choose an arbitrator within thirty (30) days after the other has given notice of its appointment with an arbitrator, the latter shall also appoint the second arbitrator. If the two arbitrators appointed are unable to agree upon the selection of an umpire within thirty (30) days following the appointment of the second arbitrator, the selection of the umpire shall be made by the President of the American Arbitration Association or its successor.

(B) Each party shall present its case to the arbitrators within thirty (30) days following the date of appointment of the umpire. The arbitrators shall consider this Agreement as an honorable engagement rather than merely as a legal obligation and they are relieved of all judicial formalities and may abstain from following the strict rules of law. The decision of the arbitrators shall be final and binding on both parties; but in case of failure to agree, they shall call in the umpire and the decision of the majority shall be final and binding upon both parties.

(C) Each party shall bear the expense of its own arbitrator, and shall jointly and equally bear with the other the expense of the umpire and of the arbitration. In the event that the two arbitrators are chosen by one party, as above provided, the expense of the arbitrators, the umpire and the arbitration shall be equally divided between the two parties.

(D) Any arbitration proceedings shall take place at a location mutually agreed upon by the parties to this Agreement, but in St. Louis, Missouri, if a location cannot be mutually agreed upon.

This provision shall survive the termination of this Agreement.

#### 14. CONFIDENTIAL INFORMATION

All information provided to General Agent by Lyndon regarding its customers or products is privileged and confidential. General Agent will not disclose such information to any other person, firm or corporation without the prior written consent of Lyndon.

#### 15. REBATES

General Agent will not pay or allow any rebate of premium in any manner whatsoever, directly or indirectly.

#### 16. SECURITY INTEREST

General Agent hereby grants to Lyndon a security interest in all compensation of every description, including future compensation, due to General Agent by Lyndon or its affiliates and subsidiaries, to secure the payment of all claims or debts, including any and all claims Lyndon may have against General Agent.

#### 17. LEGAL OR ADMINISTRATIVE ACTIONS

If any legal or administrative action is brought by any person, state, insurance department, or any other federal or state regulatory agency against Lyndon by reason of General Agent's acts, faults, or failures to act, or by reason of the acts, faults, or failures to act of any employee appointed by General Agent, General Agent will reimburse Lyndon for all monies Lyndon is required to pay as a result of such legal or administrative action, including attorneys' fees and expenses, except in those cases where Lyndon, in its sole judgment, determines that General Agent should not be held responsible.

#### 18. INDEMNIFICATION

The General Agent agrees to indemnify and save harmless Lyndon against any liability, loss or damage which the Company may sustain or incur directly or indirectly due to or arising out of any obligation, act, or transaction created or done by the General Agent or its employees in violation of, in excess of, or

in contravention of the power and authority of the General Agent set forth and described in this Agreement, the General Agent shall be liable for all damages and liabilities including but not limited to fines and penalties incurred due to the actions of the General Agent.

#### 19. NOTICES FROM REGULATORY AGENCIES

General Agent shall forward promptly to Lyndon all correspondence pertaining to this Agreement received from any regulatory or law enforcement agency.

#### 20. GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the laws of the State of Missouri. If any provision is held void, incomplete or unenforceable, the remainder of the contract shall continue in full force and effect.

#### 21. ENTIRE CONTRACT

This Agreement contains the entire contract between the parties, and may not be modified except in writing signed by General Agent and an authorized officer of Lyndon. This Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors, representatives and assigns. No oral promises or representations shall be binding. This Agreement supercedes any and all previous agreements between Lyndon and General Agent. No addendum to this Agreement shall be effective unless it is in writing and signed by General Agent and an authorized officer of Lyndon.

IN WITNESS WHEREOF, this Agreement has been executed in duplicate the day and year set forth below.

THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY THE PARTIES.

LYNDON FINANCIAL, LLC.

By: Jeffrey L. Johnson  
Title: Chairman CEO  
Date: 8/12/98

LYNDON FINANCIAL, LLC.

By: Patty Kupferman  
Title: SVP  
Date: 8/11/98

10CF6-78

~~REDACTED~~  
EXHIBIT A  
STATES FOR EXCLUSIVE APPOINTMENT

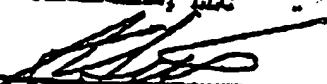
This Exhibit A is attached to and made a part of the Agency Agreement, effective the 1st day of August, 1998, by and between Lyndon Property Insurance Company ("Lyndon") and Centrix Financial, LLC ("General Agent").

The states in which General Agent has an exclusive appointment for Lyndon's Indemnity Insurance are:

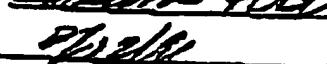
Arizona  
California  
Colorado  
Kansas  
Minnesota  
Nebraska  
Oklahoma  
Oregon  
Texas  
Washington

IN WITNESS WHEREOF, this Exhibit A has been executed in duplicate the day and year set forth below.

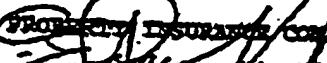
CENTRIX FINANCIAL, LLC

By: 

Title:  Director (ED)

Date:  8/11/98

LYNDON PROPERTY INSURANCE COMPANY

By: 

Title:  SVP

Date:  8/11/98

10076-98

**EXHIBIT B**

**Copy of Indemnity Insurance policy to be attached as Exhibit B.**

~~Scheduled Property Floater Inland Marine Policy~~  
~~LENDER'S INDEMNITY COVERAGE~~  
~~(called "Policy")~~

LYNDON PROPERTY INSURANCE COMPANY  
[645 MARYVILLE CENTRE DRIVE  
ST. LOUIS, MO 63141-5815]  
[(800) 950-6060]

Policy No. \_\_\_\_\_

**DECLARATIONS**

**NAMED INSURED  
AND ADDRESS:**

Policy Period: Effective Date \_\_\_\_\_ at 12:01 a.m. standard time at the address of the NAMED INSURED.  
Expiration Date: This Policy shall automatically renew on the Policy anniversary date shown above until  
canceled or a nonrenewal notice is sent under the conditions of this Policy.

AMOUNT OF INSURANCE	SINGLE VEHICLE COVERAGE	MINIMUM PREMIUM	PREMIUM
LENDER'S INDEMNITY COVERAGE The actual repossession losses incurred up to [S5,000] per Vehicle.		5 Per FINANCE CONTRACT	Per monthly report.

**SCHEDULE OF ELIGIBLE COLLATERAL:** The following COLLATERAL is eligible for coverage under this Policy. The  
COLLATERAL described shall be eligible for coverage on the Policy effective date.

**LICENSED RESIDENT AGENT COUNTERSIGNATURE** \_\_\_\_\_

If required by law

## INSURING AGREEMENT

LYNDON PROPERTY INSURANCE COMPANY (herein called the COMPANY), in consideration of the payment of the premium, subject to the Amount of Insurance stated in the Declarations and to all of the terms of this Policy and any applicable endorsement as may be added hereto, in reliance upon statements in the Declarations, and the NAMED INSURED'S use of credit underwriting standards approved by the COMPANY in writing, agrees with the NAMED INSURED as follows:

### II. DEFINITIONS

- A. "ACCOUNT DEBTOR" means the person or persons obligated to the NAMED INSURED under a FINANCE CONTRACT, conditional sale contract, chattel mortgage, or SECURITY AGREEMENT of any form involving a MOTOR VEHICLE.
- B. "COLLATERAL" means the MOTOR VEHICLE(S), as listed on the Declarations, in which the NAMED INSURED obtained a SECURITY AGREEMENT upon entering into, or acquiring, a FINANCE CONTRACT(S).
- C. "DEFAULT" means NAMED INSURED or its representative declaring all sums owing under a FINANCE CONTRACT(S) due and payable after the occurrence of a violation of the FINANCE CONTRACT or SECURITY AGREEMENT, such as the failure of an ACCOUNT DEBTOR to make payments to the NAMED INSURED at the time and in the manner and amount required by the SECURITY AGREEMENT if such failure may reasonably be expected to place an account in jeopardy or to increase the likelihood of loss thereon. In the event the ACCOUNT DEBTOR files a petition for relief under the bankruptcy laws and subsequently an order is entered confirming a plan which modifies the ACCOUNT DEBTOR'S obligations under the FINANCE CONTRACT, conditional sale contract, chattel mortgage, or SECURITY AGREEMENT, this shall constitute a DEFAULT.
- D. "FINANCE CONTRACT(S)" means a FINANCE CONTRACT, conditional sale contract, chattel mortgage or SECURITY AGREEMENT of any form involving the financing of the purchase of a MOTOR VEHICLE by an ACCOUNT DEBTOR which is originated or acquired by NAMED INSURED. FINANCE CONTRACT does not include a simple interest or actuarial bank.
- E. "INSURED'S INTEREST" means the right of the NAMED INSURED to demand the unpaid balance owed to the NAMED INSURED as of the date of repossession, including any payment made more than ninety (90) days past due, less any unearned finance charges, plus any premium, attorney or other charges computed on a simple interest or actuarial basis.
- F. "MOTOR VEHICLE REPOSSESSION LOSS" means the difference between the INSURED'S INTEREST in the COLLATERAL computed as of the date of DEFAULT and the greater of the gross sale price of the vehicle after repossession and the "Trade-In" value of the appropriate regional edition of the National Auto Dealer Association (NADA) then in effect at the date of DEFAULT.
- G. "MOTOR VEHICLE" means automobile, utility vehicles, light pickup trucks and vans intended for personal use.
- H. "NAMED INSURED" shall mean the entity identified as the NAMED INSURED in the Declarations section of this Policy.
- I. "NOTICE OF CLAIM" shall mean a detailed sworn proof of loss on a form approved and provided by the COMPANY.
- J. "PROGRAM VEHICLES" are vehicles which are purchased from a vehicle leasing company or manufacturer, or which were owned by a vehicle leasing company or manufacturer and which are sold at auction, and which have less than 20,000 actual miles at the time of sale to an ACCOUNT DEBTOR.
- K. "REPOSESSION" means the physical taking of COLLATERAL by the NAMED INSURED, or its agent or designee, after DEFAULT by the ACCOUNT DEBTOR, whether accomplished by voluntary abandonment or relinquishment of possession by the ACCOUNT DEBTOR, or by legal proceedings under whatever name which is proper under the provisions of the Uniform Commercial Code or other applicable statute or regulation and which permits valid disposition of the COLLATERAL by the NAMED INSURED.
- L. "SECURITY AGREEMENT" means the agreement which creates or provides for the NAMED INSURED'S SECURITY INTEREST in the COLLATERAL.

M. "SECURITY INTEREST" means an interest in the MOTOR VEHICLE(S) which secures the payment or performance of a FINANCE CONTRACT(S) by the NAMED INSURED other than a wholesale or floor plan obligation.

N. "REDEMPTION PERIOD" means the minimum period required by federal or state statute or regulation, that the ACCOUNT DEBTOR has to redeem a MOTOR VEHICLE following a REPOSSESSION.

### III. MAXIMUM LIMIT OF LIABILITY

The maximum limit of liability for each MOTOR VEHICLE shall be the lower of:  
A. the difference between the INSURED'S INTEREST in the COLLATERAL computed as of the date of DEFAULT and the greater of the gross sale price of the vehicle after repossession and the "Trade-In" value of the appropriate regional edition of the National Auto Dealer Association (NADA) then in effect at the date of DEFAULT; or

B. \$5,000.  
The maximum limit for all MOTOR VEHICLES covered under this policy shall be no greater than the number of MOTOR VEHICLES multiplied by the maximum limit of liability for each vehicle as stated above.

### IV. COVERAGE

The COMPANY indemnifies the NAMED INSURED against MOTOR VEHICLE REPOSSESSION LOSSES for MOTOR VEHICLE FINANCE CONTRACT(S) purchased by an ACCOUNT DEBTOR during the Policy period and reported in accordance with this Policy.

Upon satisfaction of the following requirements by the NAMED INSURED, the COMPANY shall pay to the NAMED INSURED the MOTOR VEHICLE REPOSSESSION LOSS as computed in accordance with the Maximum Limit of Liability.

A. The NAMED INSURED must require the ACCOUNT DEBTOR to provide physical damage insurance on the COLLATERAL with the NAMED INSURED as loss payee.

B. Coverage under the Policy is not provided until the ACCOUNT DEBTOR has made the first scheduled payment of the FINANCE CONTRACT.

C. Except in the event of repossession caused by the ACCOUNT DEBTOR, the NAMED INSURED shall:

1. Have taken possession of the COLLATERAL in accordance with the provisions of the Uniform Commercial Code or other controlling statute or regulation, and

2. Thereafter have proceeded in accordance with such Code or other statute or regulation to foreclose the interest of the ACCOUNT DEBTOR in the COLLATERAL.

D. The COLLATERAL must be REPOSEDSED by the NAMED INSURED with clear title before payment can be made. Payment will not be made for SECURITY AGREEMENTS for which there is a DEFECTIVE TITLE.

E. Upon taking the COLLATERAL, the NAMED INSURED shall cause the COLLATERAL to be moved to a commercially reasonable place for resale and, until the final settlement, attempt to sell or cause to be sold the COLLATERAL in a commercially reasonable manner in an attempt to satisfy any outstanding indebtedness of an ACCOUNT DEBTOR to the NAMED INSURED. The NAMED INSURED will take reasonable precautions to protect the COLLATERAL from loss or damage prior to resale.

F. Upon expiration of the REDEMPTION PERIOD of the COLLATERAL, or thirty (30) days beyond taking of the COLLATERAL, whichever is sooner, (except in those states where the REDEMPTION PERIOD is longer than thirty (30) days, in which case, upon expiration of the REDEMPTION PERIOD), the NAMED INSURED shall file with the COMPANY an appropriate NOTICE OF CLAIM.

G. In the event of the filing of the petition in bankruptcy by or against the ACCOUNT DEBTOR, the NAMED INSURED shall file with the COMPANY an appropriate NOTICE OF CLAIM in the dollar amount of the balance outstanding based on an actuarial or simple interest loan amortization, at the time of the filing of the bankruptcy petition.

H. Notwithstanding any other provisions of this Policy to the contrary, and with respect to any FINANCE CONTRACT(S) on which payments are delinquent three (3) consecutive payments or more, the COMPANY shall, within fifteen (15) days of the COMPANY'S receipt of a NOTICE OF CLAIM with respect thereto, pay to the NAMED INSURED the amount of the related MOTOR VEHICLE REPOSSESSION LOSS under this Policy.

V. EXCLUSIONS

This insurance shall not indemnify the NAMED INSURED in respect to any loss or losses:

- A. resulting from FINANCE CONTRACT(S) effected and losses occurring prior to the effective date of this Policy;
- B. resulting directly or indirectly from any dishonest, fraudulent or criminal act of any officer or employee of the NAMED INSURED; or anyone acting in any capacity as agent for the NAMED INSURED in making a loan;
- C. resulting from any collection, repossession, storage or lien expenses or cost of appraisal and legal expenses;
- D. vehicles used in commercial activities.

VI. RATES/PREMIUM

The NAMED INSURED agrees to receive a copy of each and every subspace and nonprime FINANCE CONTRACT(S) and transmit a monthly report to the COMPANY no later than the 15th day of the following month, and to pay to the COMPANY premiums in advance based on the Declarations subject to a minimum premium as shown in the Declarations for each FINANCE CONTRACT.

VII. CONDITIONS

- A. CONTRACTS INCLUDED - NAMED INSURED agrees to insure each and every subspace and nonprime FINANCE CONTRACT(S) with the COMPANY, and the COMPANY agrees the exclusive source of this coverage originating during the term of this Policy.
- B. IMPAIRMENT OR INABILITY TO PAY - No payment will be made for a loss under this Policy unless the interest rate of the FINANCE CONTRACT(S) imposed by reason of the ACCOUNT DEBTOR having DEFAULTED in his obligation to the NAMED INSURED.
- C. INTEREST RATES - Coverage is not intended to limit interest rates and is only applicable to FINANCE CONTRACT(S) with fixed interest financing.
- D. The NAMED INSURED shall keep the COMPANY fully and promptly informed of any information coming to its knowledge at any time that would indicate the ACCOUNT DEBTOR had misrepresented facts which, if truly represented, would probably have resulted, under the standards approved in writing by the COMPANY, in the refusal of credit.
- E. DECLARATIONS - By acceptance of this Policy, the NAMED INSURED agrees that the statements in the Declarations are its agreements and representations, that this Policy is based in reliance upon the truth of such representations, and that this Policy, together with any application(s) or representations in connection therewith, embodies all agreements existing between itself and the COMPANY or any of its agents relating to this insurance.
- F. MISREPRESENTATION AND FRAUD - This Policy shall be void if the NAMED INSURED has concealed or misrepresented any material fact or circumstance concerning this insurance or the subject thereof or in case of any fraud, attempted fraud or false swearing by the NAMED INSURED touching any matter relating to this insurance or subject thereof, whether before or after a loss.
- G. POLICY PERIOD, TERRITORY - This Policy shall be effective on the date shown on the Declarations and shall be automatically renewed on the Policy anniversary date until canceled or discontinued in accordance with this Policy. This Policy applies only to loss in connection with MOTOR VEHICLES purchased by the ACCOUNT DEBTOR and within the United States of America, its territories or possessions, or Canada. There shall be no coverage under this Policy when it is determined that the MOTOR VEHICLE has been removed from the United States of America, its territories, or Canada.

**ASSIGNMENT** - Assignment of interest under this Policy shall not bind the COMPANY until its consent is endorsed hereon and such consent shall not be unreasonably withheld. However, if the NAMED INSURED shall cease to exist, this insurance shall terminate.

1. To the NAMED INSURED'S legal representative, as the NAMED INSURED, but only while acting within the scope of his duties as such; or
2. To the person having temporary custody of the property of the NAMED INSURED but only until the appointment and qualification of the legal representative.

**SETTLEMENT BY NAMED INSURED** - Any settlement made by or for the NAMED INSURED on any COLLATERAL secured by FINANCE CONTRACT in respect of which there is a claim under this Policy without written authority from the COMPANY or its representatives to make such settlement, shall render this insurance void as to any loss in respect to that COLLATERAL.

**L. ACTION AGAINST COMPANY** - No action shall be against the COMPANY unless, as a condition precedent thereto, there shall have been full compliance with all other terms of the Policy, nor until thirty (30) days after NOTICE OF CLAIM is filed and the amount of loss is determined as provided in this Policy.

**K. SUIT AGAINST COMPANY** - No suit, action or proceeding for the recovery of any claim under this Policy shall be sustainable in any court of law or equity unless the same be commenced within twelve (12) calendar months next after discovery by the NAMED INSURED of the occurrence which gives rise to the claim. Provided, however, that if such limitation is invalid by the laws of the State within which this Policy is delivered or issued for delivery, then any such claim(s) shall be void unless such action, suit or proceeding be commenced within the shortest limit of time permitted by the laws of such State.

**L. SUBROGATION** - In the event of any payment under this Policy, the COMPANY shall be subrogated for the NAMED INSURED'S rights of recovery therefore against any person or organization and the NAMED INSURED shall execute and deliver all instruments and papers and do whatever else is necessary to secure such rights. The NAMED INSURED shall do nothing after loss to prejudice such rights.

**M. EXTENSION OF Maturity** - Within one year from the maturity date, extensions of maturity without the consent of the COMPANY shall not exceed one year, the usual course of business without prejudice to the rights of the NAMED INSURED to receive payment of the total period of the loan, including extensions, exceeding two years, or beyond the original scheduled date, provided that this limitation shall not apply to any extension which increases the amount due before interest and carrying charges, it being agreed that such extension shall be considered a new loan and that premium thereon for coverage under this Policy shall be paid accordingly.

It is further agreed, that if a loan made prior to the effective date of this Policy shall be renegotiated subsequent to such effective date, such renegotiated loan shall be considered to be a new loan and premium thereon shall be paid accordingly.

**N. OTHER INSURANCE** - This insurance shall apply only as excess insurance over any other valid and collectible insurance which would apply in the absence of this Policy. In no event will this Policy contribute with any other valid and collectible insurance.

**O. WAIVER OR CHANGE OF PROVISIONS** - Notice to any agent or knowledge possessed by any other person shall not affect a waiver or a change in any part of this Policy or stop the COMPANY from asserting any right under the terms of this Policy, nor shall the terms of this Policy be waived, changed or modified, except by endorsement issued by the COMPANY to form a part of this Policy.

**P. CANCELLATION** - This Policy may be cancelled by the NAMED INSURED by surrender thereof to the COMPANY or by mailing to the COMPANY written notice stating when thereafter the cancellation shall be effective. This Policy may be cancelled by the COMPANY by mailing to the NAMED INSURED at the address shown in the Declaration, written notice stating when, not less than sixty (60) days thereafter, such cancellation shall be effective. The mailing or delivery of the notice as aforesaid shall be sufficient proof of notice. However, in the case of misrepresentation and/or fraud, or the NAMED INSURED'S, or its agent's or representative's, failure to adhere to credit underwriting standards approved in writing by the COMPANY, cancellation by the COMPANY shall be effected upon ten (10) days written notice.

The time or manner or the effective date and hour of cancellation and in the notice shall become the end of the Policy period. Delivery of such written notice either by the NAMED INSURED or by the COMPANY shall be equivalent to mailing. In the event of such cancellation, either by the COMPANY or by the NAMED INSURED, the COMPANY shall remain liable hereunder with respect to only those FINANCE CONTRACTS of the NAMED INSURED in effect prior to the effective date of cancellation and for which the applicable premium has been paid.

Q. NONRENEWAL - The COMPANY may elect not to renew this Policy at its anniversary date by mailing written notice to the NAMED INSURED at least thirty days before the anniversary date.

In the event of nonrenewal the COMPANY shall remain liable hereunder with respect to only those FINANCE CONTRACTS of the NAMED INSURED in effect prior to the effective date of nonrenewal and for which the applicable premium has been paid.

R. INSPECTION AND AUDIT - The COMPANY shall be permitted, but not obligated, to inspect the NAMED INSURED'S property and operations which relates to the NAMED INSURED'S accounts at any time. Neither the COMPANY'S right to make inspections or the making thereof shall constitute an undertaking on behalf of or for the benefit of the NAMED INSURED or other to determine or warrant that such property or operations are safe and healthful, or are in compliance with any law, rule or regulation. For the purposes of determining the amount of premium due the COMPANY under this insurance, the COMPANY or its representatives, may at any reasonable time during business hours examine and audit the NAMED INSURED'S books and records which relate to the NAMED INSURED'S ACCOUNTS. The examination or audit can be conducted at any time during the Policy period and extension thereof. Examinations and audits may also be conducted within three years after the final termination of this Policy or until after all FINANCE CONTRACT(S) issued by COMPANY have expired, whichever is later.

S. PREMIUM CHANGES - The COMPANY reserves the right to change the NAMED INSURED'S premium: 1.) on each anniversary of this Policy; 2.) when the terms of this Policy change; or 3.) because of experience.

T. CONFORMITY TO STATUTE - Terms of this Policy which are in conflict with the statutes of the State wherein this Policy is delivered or issued for delivery are hereby amended to conform to such statutes.

In Witness Whereof, the COMPANY has caused this Policy to be signed by its authorized officer, and this Policy shall not be valid unless countersigned by our duly authorized agent, and to be delivered to the named insured.

**SAMPLE**

[Secretary]

[President]

IN THE  
UNITED STATES PATENT AND TRADEMARK OFFICE

Inventor(s): Robert E. Sutton

Examiner:

Application No.: 09/896,705

Group Art Unit: 2161

Filing Date: June 29, 2001

Title: METHOD FOR PROVIDING FINANCIAL AND RISK MANAGEMENT

---

**Affidavit of Howard Klemmer  
Under 37 CFR 1.132 Relating to Public Use, On Sale and Experimental Use**

Assistant Commissioner for Patents  
Washington, D.C. 20231

Dear Sir:

I, Howard Klemmer, hereby depose and state:

1. That I have over 35 years of senior management experience, and designing and implementing operating strategies in diverse businesses;
2. That I was CEO of Klemmer & Company and provided on-site consulting for various businesses including holding positions as President/CEO for Estrada Foods, DataHand and Kroy, Inc.;
3. That I have held management positions at Digital Equipment Corporation and Raytheon Company;
4. That I have a Masters in Business Administration from Boston University and a Bachelor of Science degree in engineering from North Eastern University;
5. That I am currently an employee of Centrix Financial, LLC and have been an employee of Centrix Financial, LLC since 1997;
6. That I am the manager of the Loan Management Group and Risk Management Department at Centrix Financial, LLC and that I have overseen the operations of Centrix Financial, LLC from its inception;

7. That I have reviewed the above-identified patent application, including claim 22;
8. That I am personally aware of a beta test agreement between Centrix Financial, LLC and Mountain Bell Credit Union, that was in process both before and after the critical date of June 29, 1999, to test the method of claim 22;
9. That the beta test agreement between Centrix Financial, LLC and Mountain Bell Credit Union was intended to primarily function as a test of the concepts of the process of claim 22 of the above-identified application;
10. That the beta test agreement between Centrix Financial, LLC and Mountain Bell Credit Union, as well as similar agreements between Centrix Financial, LLC and other credit unions, was entered into by Centrix Financial, LLC to obtain actual live delinquency and default data which was necessary to test the feasibility of the process of claim 22 of the above-identified application;
11. That one of my primary duties at Centrix Financial, LLC is to oversee the operations of Centrix Financial, LLC, in particular, delinquency and default data on loans made in accordance with the process set forth in claim 22 of the above-identified application;
12. That I have studied the default rates of Centrix Financial, LLC loans since 1998 and the effect such default ratios have on the feasibility of operating a subprime lending program in accordance with the process set forth in claim 22 of the above-identified application;
13. That I have worked with a statistician to determine the number of loans required to have a statistically relevant sample of loans to assess risk and determine the feasibility of the process set forth in claim 22;
14. That I have worked closely with the Portfolio Manager of Centrix Financial, LLC to determine the period of time needed for loans made in accordance with the process of claim 22, of the above-identified application, to obtain statistically relevant data relating to defaults so as to adequately forecast defaults, and to assess risk and determine the feasibility of the process of claim 22 of the above-identified application;
15. That, under the direction of Robert E. Sutton, I collected detailed experimental data relating to delinquencies and defaults in the testing of the process of claim 22 of the above-identified application and have frequently reviewed this data with the statistician and Portfolio Manager;

16. That I periodically met with Robert E. Sutton, usually on a weekly basis, to review the experimental data relating to delinquencies and defaults during calendar years 1998, 1999 and 2000;
17. That actual delinquency and default data was required to test the process of claim 22 prior to the critical date of June 29, 1999 in order to determine if the process of claim 22 would operate;
18. That the first year of experimentation of the process of making loans in accordance with claim 22 ended on August 1, 1999, which was after the critical date of June 29, 1999;
19. That the number of loans placed with financial institutions, in accordance with the process of claim 22, prior to the critical date was 392 loans;
20. That the 392 loans that had been made by Centrix Financial, LLC as of June 29, 1999 were significantly less than the number of loans required to provide a statistically relevant sample, and that the period of less than one year of experimentation was less than the period of time needed to adequately evaluate default rates;
21. That a period of at least 2 years is required to adequately evaluate default rates on vehicle loans because most defaults occur during the second year of a loan;
22. That the critical date of June 29, 1999 was prior to the expiration of one year from the initiation of testing of the process of claim 22 such that the first year of testing extended beyond the critical date; and
23. That a statistically relevant sample of loans that were adequate to test the feasibility of the invention of claim 22 were not made by Centrix Financial, LLC as of June 29, 1999.

That the above facts, to the best of my knowledge, are true.

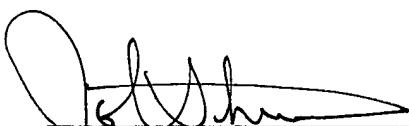


Howard Klemmer

STATE OF COLORADO      )  
                                )  
                                ) ss.  
COUNTY OF DENVER        )

Subscribed and sworn before me this 10<sup>th</sup> day of April, 2003, by  
Howard Klemmer.

CENT.01USU1



Notary Public

My commission expires:

My Commission Expires  
September 11, 2004

(SEAL)



## FAX Message

---

To: Gary Atkins - MBCU                      Fax # 719 473-0756  
Fm: Robert Sutton -Centrix                      Fax # 303 224-0302  
Subject: 60 Delinquency Report  
Date: June 30, 2000

### Summary:

Centrix is happy to report that for the MBCU's portfolio, loans over 60 days delinquent are less than 1.50% of the total outstanding principal balance as of 4:00 PM June 30, 2000.

### Discussion:

Attached is the quarterly report on the 60-day delinquency status. Pursuant to the 60-day delinquency procedure, Centrix will buy all loans that are in excess of 1.5% of the outstanding balance as of the end of the quarter, in this case June 30, 2000.

- As of 4:00 PM on June 30, 2000 the outstanding principal balance for all pools of MBCU loans was \$9,270,173.65 and 1.50% of this balance is \$139,052.60.
- Also as of 4:00 PM the sum of all MBCU pools with delinquency over 60 days was \$138,225.81 or 1.49% of the outstanding principal balance.

Therefore for this quarter, MBCU will have no loans to report that are in excess of the 1.50% of the outstanding principal.

This report includes pay-off and posting of the 6 loans that were considered deficient

1. David Braesicke
2. Eric Doxsee
3. Christopher Gamblin
4. Gary McNabb
5. Jessica Megargee
6. Michael Adcock

# Memo

**To:** Bob Sutton

**From:** John Schreven

**CC:** Howard Klemmer, Mike Lammers

**Date:** 6/2/00

**Re:** Follow up to Mtn Bell memo of 5-30

---

On May 30<sup>th</sup> I forwarded a memo regarding the manner by which Mtn Bell wanted to have the proceeds from sale applied to the loan.

Since then we have gained some further clarification and believe that interest will accrue on an account until the lesser of date of repo or 90 days past due.

At the time of REPO the account is re-classified into two (2) accounts. One (1) an account is set up for the fair market value of the collateral and the second (2) account is set up for the fees, costs, charges, expenses, ACCRUED INTEREST, and the difference between the loan balance and the fair market value.

**Because they allow up to 90 days of accrued Interest it will affect our principle balance when we post the proceeds to the account.**

Based on this info we need to adopt a procedure by which we go in to our system and stop interest accrual on the repo date or 90<sup>th</sup> delinquent day for Credit Union accounts.

We will also need to gain knowledge of how Banks account vs. Credit Unions and keep them separate.

123 S. Web r  
P.O. Box 1237  
Colorado Springs, CO 80901  
(719) 473-7452  
1-800-247-6932



X/7

14 Atkins

Fax - (719) 473-0756  
MART System - (719) 473-0335

E-Mail - mtnbell@usa.net  
Internet - www.colocu.com/mtnbell

Mr. Bob Sutton  
Centrix Resource Systems, LLC  
5690 DTC Boulevard, Suite 270W  
Englewood, Colorado 80111-3234

Dear Bob,

In discussing your procedures manual we pointed out several changes that need to be made. There are two changes that must be made to your operations immediately to comply with the Truth in Lending Regulation Z and the Colorado Uniform Consumer Credit Code.

1. You must stop charging late fees on all existing contracts. Late fees cannot be collected unless it is disclosed in the original loan agreement with the Borrower. All late fees currently collected must be refunded unless the original disclosure to the Borrower allowed for late fees.
2. A notice of Right to Cure default must be sent to a borrower no earlier than 10 days after missing a payment before collateral may be repossessed and repossession cannot take place for 21 days from the date the Right to Cure notice is mailed.

I would appreciate your immediate attention to this matter.

Sincerely,

Gary Atkins  
President

(X)



## CENTRIX RESOURCE SYSTEMS

Colorado late fees have been incorrectly charged. In the opinion of Attorney Bob Wilson, State law does not allow a late fee in the State of Colorado on a purchased Retail Installment Contract. Late fees may be imposed if the consumer directly approaches the Credit Union and is given a direct loan. In our case these contracts are purchased in a sense, and do not qualify for the above-mentioned late fees. As of July 1<sup>st</sup> of this year, late fees are permitted in the amount of \$15.00 after a ten day delinquent period, if the late fee is disclosed in the Regulation Z box and in the body of the contract. To my knowledge the dealers are not/have not put this information into the contracts. At this time we are not charging a late fee on any Colorado Business.

**Exposure:** \$26,078.22 Dollars since day one. Grand Total  
P&L Accounts \$1,129.97

**Action Plan:** Create late fee report by Customer, written off accounts will not be effected, accounts where Lyndon has paid account in full will not be effected, any delinquent or defaulted accounts will be applied to the customers loan. All other customers will be sent a check for the late fees. A letter will sent to each customer along with the reimbursement that payments were applied incorrectly and they are due a refund.

**Sample reimbursement Plan:**

October 2000	\$2,000.00 reimbursed
November 2000	\$2,000.00 reimbursed
December 2000	\$2,000.00 reimbursed
Etc - until all monies returned	

**Company Position:** Centrix Resource Systems, LLC has a contractual arrangement with each Client limiting our Clients exposure due to the negligence of CRS. Management might want to consider the matter internal as far as our Clients are concerned, acknowledge mistakes were made and we will have corrected within a reasonable amount of time.

**Pro-Active Response:** CRS will have attorney opinions written for each State we Contract in for Servicing. Our initial focus will be on existing business, immediately following in the States we are under negotiations.

Attorney Bob Wilson will be submitting a formal opinion outlining his professional opinions in this matter.

**From:** Bob Wilson [rgwilson@bw-legal.com]  
**Sent:** Tuesday, September 12, 2000 11:34 AM  
**To:** klemmer@rni.net  
**Subject:** late charges

Howard, under the prior Colorado UCCC, late fees or delinquency charges were permitted in all consumer loan transactions per section 5-3-203 of the UCCC. With respect to consumer credit sales, late fees or charges were only permitted in precomputed sales transactions. (See 5-2-203)

Dealer contracts are simple interest for the most part, and therefore, no late fees were permitted. The code was changed during the last session to permit late fees in all consumer credit transactions, including consumer credit sales. The max fee is \$15.00. (See section 5-2-203 of the new UCCC). This became effective July 1, 2000. Under any contract, no late fee may be charged unless such fee is provided for in the contract and is disclosed as part of the truth in lending disclosures.

While dealers can now include late fees in their contracts, I do not think they have made any changes to their agreements. If not, no late fees can be charged. If late fees have been improperly assessed, the debtor is entitled to a refund. A refund may be made by credit to the outstanding balance still due on the account. The code does not require payment of interest in such situation. However, if a debtor is entitled to a refund and the person liable to the debtor for the refund refuses, the debtor may collect a penalty as determined by a court up to 10 times the amount of the fee. If you discover an error with respect to late fees, I recommend that you refund any improper fees immediately, either in cash or by credit to an existing obligation.

I recommend that you notify any debtor involved that the refund has or will immediately occur. The old code provision is found at 5-5-202 (3) and (4). The new code provision is found at 5-5-201(2) and (3). If you have any questions, please call Bob.

THIS E-MAIL TRANSMISSION AND ALL ATTACHMENTS AND THE CONTENTS THEREOF ARE CONFIDENTIAL, ARE INTENDED ONLY FOR USE OF THE NAMED RECIPIENT AND MAY BE SUBJECT TO ATTORNEY-CLIENT PRIVILEGE, AND/OR ATTORNEY WORK PRODUCT PRIVILEGE, NONE OF WHICH PRIVILEGES ARE WAIVED BY THIS TRANSMISSION. IF YOU ARE NOT THE NAMED RECIPIENT, PLEASE IMMEDIATELY "REPLY" BY E-MAIL TO THE SENDER, STATING THAT THIS TRANSMISSION WAS MISDIRECTED, AND DESTROY ALL ELECTRONIC (AND PAPER, IF ANY) COPIES OF THIS TRANSMISSION AND THE ATTACHMENTS.



**CENTRIX**  
RESOURCE SYSTEMS  
**MOUNTAIN BELL CU**

Colorado late fees have been incorrectly charged. In the opinion of Attorney Bob Wilson, State law does not allow a late fee in the State of Colorado on a purchased Retail Installment Contract. Late fees may be imposed if the consumer directly approaches the Credit Union and is given a direct loan. In our case these contracts are purchased in a sense, and do not qualify for the above-mentioned late fees. As of July 1<sup>st</sup> of this year, late fees are permitted in the amount of \$15.00 after a ten-day delinquent period, if the late fee is disclosed in the Regulation Z box and in the body of the contract. To my knowledge the dealers are not/have not put this information into the contracts. At this time we are not charging a late fee on any Colorado Business.

**Exposure:** \$12,828.55 Dollars since day one. **Grand Total**

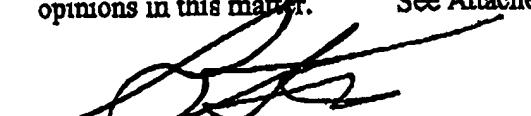
**Action Plan:** Create late fee report by Customer, any current, delinquent or defaulted account will be applied to the customers loan. Any account paid in full will be generated a check. A letter will sent to each customer detailing that an error in posting has occurred and that payments were applied incorrectly and they are due a credit on their account. See attached letter

**Sample reimbursement Plan:** Credit all accounts by September 30<sup>th</sup>, as per recommendations by Attorney Bob Wilson's Opinion paper.

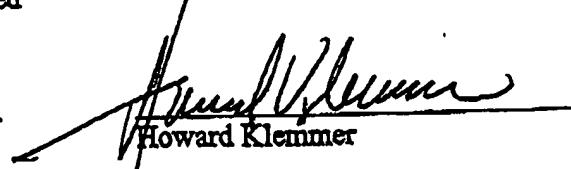
**Company Position:** Centrix Resource Systems, LLC has a contractual arrangement with each Client limiting our Clients exposure due to the incorrect interpretation of CRS. Management might want to consider the matter internal as far as our Clients are concerned, acknowledge mistakes were made and we will have corrected within a reasonable amount of time.

**Pro-Active Response:** CRS will have attorney opinions written for each State we Contract in for Servicing. Our initial focus will be on existing business, immediately following in the States we are under negotiations.

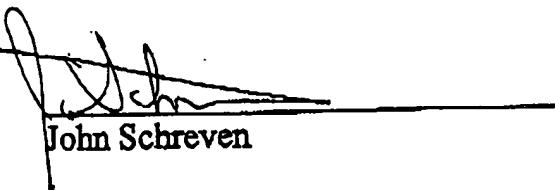
Attorney Bob Wilson will be submitting a formal opinion outlining his professional opinions in this matter. See Attached



Robert Sutton



Howard Klemmer



John Schreven



Michael Lammers

*Approved by [Signature]*

*Date*

## CREDIT UNION PROCEDURE FOR CENTRIX PMP

### 90 Day Provision

(Draft)

August 2, 2001

#### I. PURPOSE

Section II.E. of the GAP insurance policy provides: *The insured's interest in the collateral means the unpaid balance owed to the named insured as of the date of default, including payments not more than 90 days past due; less any unearned finance charges, unearned insurance premiums, late charges or other charges computed on a simple interest or actuarial basis.*

Centrix has the option, in some situations, to advance the anticipated proceeds from the insuring agreement with respect to any monthly payments due (up to 90 days of payments) during the default period. Centrix will review situations with the credit union, on a loan-by-loan basis, to determine if and when to exercise this option. This process exists in order to assist credit unions to mitigate losses during the period when the vehicle has been repossessed and sold and the GAP claim is being filed and paid. Typically, this process will be considered when Centrix Resource Systems (CRS) determines that the repossession and reallocation of a vehicle will require more than 60 days from the first day of account delinquency.

In the event that Centrix elects to implement this optional process, Centrix will advance the first payment once the account is over 60 days delinquent. If necessary, Centrix will advance up to two additional payments during the default period. During this time, the member is in default because he/she has not made payment. Because of the guarantee of up to 90 days of payments, however, the loan is not in financial default.

The member's default triggers the insurance policy and the specific provisions relating to past due payments. Once the underlying collateral has been repossessed and sold, the net proceeds of the sale and the insurance proceeds (less any payments advanced by Centrix during the default period) will be forwarded to the credit union when payment is remitted during the next statement period.

#### 2. RESPONSIBILITIES

Centrix Resource Systems (CRS) receives and processes payments, coordinates delinquencies, and advances payments on delinquent accounts. Specifically, this includes:

- Identifying accounts as delinquent. (CRS's systems automatically perform this function.)

Providing the credit union with Semi-Monthly Transaction Reports and all monthly Delinquency Reports.

- Filing the insurance claim pursuant to Section II.E. of the insuring agreement.  
Repossession and reallocation of the vehicle.  
Advancing up to 3 monthly payments during the default period.
- Paying the net proceeds of the sale and the insurance proceeds, less any payments advanced by Centrix during the default period, to the credit union.

The credit union is responsible for reviewing Centrix's reports and reporting any delinquent loans in accordance with prevailing regulatory standards.

### 3. PROCEDURES

The following procedures are implemented during the default period:

- Centrix advances up to 3 monthly payments due (up to 90 days of payments, per Section II.E. of the insuring agreement) during the default period but not paid by the member.
- Centrix will advance the 1<sup>st</sup> payment once the account is over 60 days delinquent. If necessary, Centrix will advance up to 2 additional payments, with each payment being made after the 60<sup>th</sup> day of delinquency of the 2<sup>nd</sup> and 3<sup>rd</sup> subsequent payments.
- The payments advanced by Centrix will be posted to the credit union's Semi-Monthly Transaction Statement with the code "INAD#" to indicate that the payment has been advanced by Centrix.
- The payments advanced by Centrix are for the monthly payment amount.
- The credit union accounts for payments advanced by Centrix in the same manner as for any other loan payment received.
- Centrix has the right and responsibility to repossess the underlying collateral when the member is in default. Therefore, during the default period, CRS conducts asset repossession and reallocation activities in addition to filing the insurance claim. Proceeds from the insurance claim and asset sale are typically received by Centrix prior to the time that the 4<sup>th</sup> monthly payment is due.
- Centrix is reimbursed for the exact amount of any monthly payments it advanced during the default period.
- Net of these payments, Centrix remits the balance of the insurance claim and the net proceeds of the collateral sale to the credit union during the reporting period during which the GAP claim proceeds are received and applied to the account.